

NEW ISSUE

NOT RATED

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2002 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Exemption" herein.

\$18,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
IMPROVEMENT AREA A 2002 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: September 1, as shown below

The Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture, dated as of December 1, 2002 (the "Bond Indenture"), by and between Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "Community Facilities District") and State Street Bank and Trust Company of California, N.A. or its successor as described herein, as fiscal agent (the "Fiscal Agent"). The 2002 Bonds are payable from proceeds of Special Taxes (as defined herein) levied pursuant to the Improvement Area A Rate and Method of Apportionment of Special Tax on property within Improvement Area A of the Community Facilities District approved by the qualified electors of Improvement Area A of the Community Facilities District and by the Board of Education of the Poway Unified School District (the "School District"), acting as the Legislative Body of the Community Facilities District.

The 2002 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain road, water, sewer, drainage, fire station, park, public library, additional school facilities and other public facilities (the "Infrastructure Improvements"), (ii) to fund a reserve fund for the 2002 Bonds, (iii) to pay interest on the 2002 Bonds through September 1, 2003, (iv) to pay administrative expenses and (v) to pay the costs of issuing the 2002 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS" herein.

Interest on the 2002 Bonds is payable on March 1, 2003 and semiannually thereafter on each March 1 and September 1. The 2002 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2002 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2002 Bonds as described herein under "THE 2002 BONDS — Book-Entry and DTC."

The 2002 Bonds are subject to optional redemption, mandatory redemption from prepayment of Improvement Area A Special Taxes and mandatory redemption as described herein.

THE 2002 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2002 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2002 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2002 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2002 BONDS. THE 2002 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2002 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2002 Bonds.

The 2002 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Best Best & Krieger LLP and by McFarlin & Anderson, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2002 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about December 19, 2002.

Stone & Youngberg LLC

Dated: December 4, 2002

MATURITY SCHEDULE
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
IMPROVEMENT AREA A 2002 SPECIAL TAX BONDS
\$3,530,000 SERIAL BONDS
Base CUSIP No. 738855*

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>
2006	\$15,000	3.50%	100%	FV2	2014	\$250,000	5.35%	100%	GD1
2007	40,000	3.80	100	FW0	2015	285,000	5.50	100	GE9
2008	65,000	4.15	100	FX8	2016	330,000	5.60	100	GF6
2009	90,000	4.50	100	FY6	2017	375,000	5.70	100	GG4
2010	115,000	4.70	100	FZ3	2018	425,000	5.80	100	GH2
2011	145,000	4.90	100	GA7	2019	475,000	5.90	100	GJ8
2012	175,000	5.00	100	GB5	2020	535,000	6.00	100	GK5
2013	210,000	5.15	100	GC3					

\$3,685,000 6.050% Term 2002 Bonds due September 1, 2025 Price 100% CUSIP No. 738855GM1

\$10,785,000 6.125% Term 2002 Bonds due September 1, 2033 Price 100% CUSIP No. 738855GN9

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POWAY UNIFIED SCHOOL DISTRICT

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BOND COUNSEL/DISTRICT SPECIAL COUNSEL

Best Best & Krieger LLP
San Diego, California

SCHOOL DISTRICT COUNSEL

Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL

McFarlin & Anderson
Lake Forest, California

APPRAISER

Stephen G. White, MAI
Fullerton, California

SPECIAL TAX CONSULTANT & ADMINISTRATOR

David Taussig & Associates, Inc.
Newport Beach, California

FISCAL AGENT

State Street Bank and Trust Company of California, N.A.
Los Angeles, California

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION WITH RESPECT TO THE 2002 BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2002 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2002 BONDS.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the School District, or other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the School District or the Community Facilities District since the date hereof.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE 2002 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2002 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 2002 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2002 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2002 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

\$18,000,000

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A 2002 SPECIAL TAX BONDS

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2002 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds").

The 2002 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of December 1, 2002 (the "Bond Indenture"), by and between the School District (as defined below) and State Street Bank and Trust Company of California, N.A. (or its successor, as fiscal agent (the "Fiscal Agent")). U.S. Bank, N.A. has entered into an agreement to acquire the trust business of State Street Bank and Trust Company of California, N.A. and upon completion of the purchase, the Fiscal Agent will be U.S. Bank, N.A. See "THE 2002 BONDS – Authority of Issuance" herein. The Community Facilities District may issue additional bonds payable on a parity with the 2002 Bonds pursuant to the provisions of the Bond Indenture for refunding purposes only. See "SECURITY FOR THE 2002 BONDS – Parity Bonds."

The School District

The Poway Unified School District (the "School District") is located north of the City of San Diego (the "City"). The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles in the central portion of the County of San Diego (the "County") and includes the City of Poway and portions of the City and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, four (4) high schools, one (1) continuation high school and one (1) adult school. The School District had approximately 32,500 students enrolled during Fiscal Year 2001-02. See APPENDIX A – "General Information About the Poway Unified School District" herein.

The Community Facilities District and Improvement Area A

The Community Facilities District was formed and established by the School District on March 24, 1998 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the "Act"), following a public hearing. At a landowner election held on March 24, 1998 the qualified electors of the Community Facilities District, by more than a two-thirds vote, authorized the Community Facilities District to incur a bonded indebtedness of the Community Facilities District to finance the acquisition and construction of certain school facilities (the "School Facilities"). The qualified electors of the Community Facilities District authorized bonded indebtedness in the aggregate not-to-exceed principal amount of \$130,000,000 and approved the levy of annual special taxes (the "Community Facilities District Special Taxes") pursuant to a Community Facilities District Rate and Method of Apportionment of Special Tax (the "Community Facilities District Rate and Method"). The owners of property within portions of the Community Facilities District requested the School District to form three separate improvement areas (each an "Improvement Area") within a portion of the Community Facilities District and to authorize the issuance of bonds to finance road, water, sewer, drainage, fire station, park, public library, additional school facilities and other public facilities (the "Infrastructure Improvements") in the aggregate principal amount of \$62,000,000, such amount to be payable from special taxes levied pursuant

to a separate rate and method of apportionment of special tax with respect to each Improvement Area within the Community Facilities District. Each Improvement Area, including Improvement Area A, was formed and established by the School District on October 21, 2002 pursuant to the Act, following a public hearing. At landowner elections held on October 21, 2002, the qualified electors of each Improvement Area, including Improvement Area A, by more than a two-thirds vote, authorized the Community Facilities District to incur a bonded indebtedness with respect to each Improvement Area to finance the acquisition and construction of the Infrastructure Improvements. With respect to Improvement Area A, the qualified electors of the Community Facilities District authorized bonded indebtedness in the aggregate not-to-exceed principal amount of \$18,000,000 and approved the levy of annual special taxes (the "Special Taxes") in Improvement Area A. See "SECURITY FOR THE 2002 BONDS – Rates and Methods – Improvement Area A Rate and Method" and "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – 4S Kelwood and the Merchant Builders."

The cost of the School Facilities funded by the Community Facilities District is expected to exceed the cost of the Infrastructure Improvements funded by the Improvement Areas. A portion of the costs of the Infrastructure Improvements will be financed through the levy of an annual Special Tax on Developed Property and Undeveloped Property in Improvement Area A as set forth in the First Amended Rate and Method of Apportionment for Community Facilities District No. 6 of the Poway Unified School District (Improvement Area A) (the "Improvement Area A Rate and Method"). See "SECURITY FOR THE 2002 BONDS – Rates and Methods – *Improvement Area A Rate and Method*." The Community Facilities District will use such Special Taxes levied pursuant to the Improvement Area A Rate and Method and proceeds of the 2002 Bonds for the acquisition, construction, rehabilitation and improvement of the Infrastructure Improvements. The 2002 Bonds are secured by or payable from the Special Tax levied pursuant to the Improvement Area A Rate and Method to finance the Infrastructure Improvements. The 2002 Bonds will only finance Infrastructure Improvements. The 2002 Bonds will not be secured by or payable from the Community Facilities District Special Tax authorized to be levied to finance the School Facilities.

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

The Community Facilities District is contiguous, and is generally located north and south of Rancho Bernardo Road, approximately two miles west of Interstate 15, in the northern unincorporated portion of the County. The Community Facilities District lies within the area of the new master-planned community known as "4S Ranch" and is part of the specific plan area known as "4S Ranch." The Community Facilities District is an extension of the on-going development of the community of Rancho Bernardo. The Community Facilities District is comprised of approximately 2,888 gross acres expected to be developed with approximately 4,715 residential units, commercial and industrial property and school sites. The area consists of rolling terrain with slopes and knolls. Within the Community Facilities District approximately 1,612 acres is designated as natural open space and approximately 195 acres is designated as managed open space for brush management and major internal slopes. Within the Community Facilities District approximately 420 gross acres were under development as of November 1, 2002, of which approximately 150 gross acres are in Neighborhood 2.

The property within the Community Facilities District is planned to be developed in phases, which are referred to as Neighborhoods One, Two, Three and Four. As described below, sales to merchant builders commenced in Neighborhood One in 2000 and sales to merchant builders in Neighborhood Two commenced in the third quarter of 2002. The land for Neighborhoods Three and Four is currently in raw condition, with no grading or construction of infrastructure yet underway. Sales of these sites to merchant builders are anticipated to take place from 2003 through 2007. *Neighborhood Two comprises Improvement Area A.* Neighborhood Two is located south of Camino Del Norte and extending from west of 4S Ranch Parkway to east of Dove Canyon Road.

The property within the Community Facilities District is primarily owned by 4S Kelwood General Partnership, a California general partnership ("4S Kelwood") (approximately 1,681 gross acres). 4S Kelwood is acting as the master developer except for those portions sold to merchant builders or individual homeowners. It is expected that approximately 520 net acres originally owned by 4S Kelwood

of the 553 net acres in the Community Facilities District proposed for residential development will be subject to the Community Facilities District Special Tax. (In addition, there are approximately 33 acres within Neighborhood Four which are owned by another landowner, 4S Ranch Company 600, L.P., which may be developed with approximately 36 Detached Units.) At build-out, the Community Facilities District is expected to be comprised of approximately 4,715 residential units and some commercial and industrial property and school sites. Approximately 2,975 units are expected to be Detached Units (as defined in the Rate and Method), approximately 1,599 units are expected to be Attached Units (as defined in the Rate and Method), and approximately 141 units (120 in Neighborhood One and 21 in Neighborhood Four) are expected to be Affordable Units (as defined in the Rate and Method). As mentioned above, approximately 36 of the 2,975 Detached Units may be constructed on property within the Community Facilities District which was not within the property initially owned by 4S Kelwood. Of the 1,599 Attached Units, approximately 529 units are expected to be a portion of a 550 unit apartment complex proposed for a site currently zoned for commercial use in Neighborhood Four. The remaining units in the apartment complex are expected to be the 21 Affordable Units mentioned above.

Annual Special Taxes for Improvement Area A will be levied on Taxable Property within Improvement Area A for the acquisition and construction of Infrastructure Improvements.

The partners of 4S Kelwood are 4S Ranch Company 1700, a California limited partnership ("4S Ranch Company 1700"), and Kelwood Development Company LLC, a Delaware limited liability company ("Kelwood Development Company"), the sole managing partner. Kelwood Development Company is owned by Genstar Land Company, LLC, a Delaware limited liability company ("Genstar"), which is related to Newland Communities LLC, a Delaware limited liability company ("Newland Communities"). The 4S Ranch development project is managed by Newland-IHP Management, LLC, a Delaware limited liability company and Kelwood Development Company. 4S Kelwood originally owned approximately 520 net residential acres (1,681 gross acres) expected to be developed with approximately 4,679 of the approximately 4,715 residential units.

Within Neighborhood Two 4S Kelwood has entered into contracts for the sale of approximately 98.6 net residential acres expected to be developed with approximately 475 of the 565 Detached Units proposed for Improvement Area A to K. Hovnanian at 4S, LLC ("K. Hovnanian at 4S, LLC"), Fieldstone 4S Area 7, LLC ("Fieldstone 4S Area 7, LLC"), Standard Pacific Corp. ("Standard Pacific"), Pulte Home Corporation ("Pulte Homes"), Centex Homes ("Centex Homes") and Belle Rive Development Company LLC, a California limited liability company ("Belle Rive Development Company") of which Buie Communities LLC, a California limited liability company ("Buie Communities") is the Manager. Belle Rive Development Company closed escrow on 82 lots and Centex Homes closed escrow on 32 lots. 4S Kelwood is negotiating contracts for sale of the remaining 90 proposed lots for Detached Units in Improvement Area A to other merchant builders. There are no Affordable Units within Improvement Area A; Affordable Units are not subject to the Special Tax. At this time, the Community Facilities District estimates that Merchant Builders will be responsible for a significant portion of the Fiscal Year 2003-04 Improvement Area A Special Tax levy. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A" for a description of the Community Facilities District, Improvement Area A, 4S Kelwood, the Merchant Builders and the development within Improvement Area A.

The various merchant builders currently anticipated to be involved in development within Improvement Area A, including K. Hovnanian at 4S, LLC, Fieldstone 4S Area 7, LLC, Standard Pacific, Pulte Homes, Centex Homes and Belle Rive Development Company are each individually referred to as a "Merchant Builder" and collectively referred to as the "Merchant Builders." Detailed information about the location of and property ownership and land uses in Improvement Area A is set forth in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A" herein.

Purpose of the 2002 Bonds

The Community Facilities District was formed pursuant to a School Impact Mitigation Agreement dated as of February 1, 1998 among the School District, 4S Kelwood, 4S Ranch Company, a California limited partnership and 4S Ranch Company 600, L.P., a California limited partnership (the "Impact Mitigation Agreement"). The Impact Mitigation Agreement originally required the property owners (and their successors-in-interest) to include their property in a community facilities district in order to finance School Facilities and was amended by a supplement to the Impact Mitigation Agreement dated June 17, 2002 to, among other things, provide for the issuance of bonds of the Improvement Areas to fund Infrastructure Improvements. See "INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS," "SECURITY FOR THE 2002 BONDS – Rates and Methods – *Improvement Area A Rate and Method*" and "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Property Ownership" and "– 4S Kelwood and the Merchant Builders" herein.

Sources of Payment for the 2002 Bonds

The 2002 Bonds are secured by and payable from a first pledge of "Net Special Tax Revenues," which is defined as proceeds of the Improvement Area A Special Taxes levied and received by the Community Facilities District, including the net amounts (the "Delinquency Proceeds") collected from the redemption of delinquent Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Improvement Area A Special Taxes resulting from the delinquency in the payment of the Improvement Area A Special Taxes due and payable on such property, and net of the County, foreclosure counsel and other fees and expenses incurred by or on behalf of the Community Facilities District or the School District in undertaking such foreclosure proceedings, less Administrative Expenses (as defined in the Bond Indenture) not to exceed \$25,000 with respect to Improvement Area A. "Special Taxes" are defined in the Bond Indenture as the special tax levied pursuant to the Improvement Area A Rate and Method to finance the acquisition and construction of the Infrastructure Improvements pursuant to the Act and the Improvement Area A Rate and Method.

Pursuant to the Act, the Improvement Area A Rate and Method, the Resolution of Formation (as defined herein) and the Bond Indenture, so long as the Bonds are outstanding, the Community Facilities District will annually ascertain the parcels in Improvement Area A on which the Special Taxes are to be levied taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the Special Taxes in accordance with the Improvement Area A Rate and Method and the Act each Fiscal Year so that the computation of such levy is completed and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within Improvement Area A for inclusion on the next real property tax roll. See "SECURITY FOR THE 2002 BONDS – Special Taxes" herein.

The Improvement Area A Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See "SECURITY FOR THE 2002 BONDS – Rates and Methods" and "BONDOWNERS' RISKS – Exempt Properties."

The 2002 Bonds are also secured by a first pledge of all moneys deposited in the Reserve Fund. See "SECURITY FOR THE 2002 BONDS." A Reserve Fund will be established out of the proceeds of the sale of the 2002 Bonds in an amount equal to the Reserve Requirement. The Bond Indenture defines Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) the then maximum annual debt service on the 2002 Bonds, (ii) 125% of the then average annual debt service on the 2002 Bonds or (iii) 10% of the initial principal amount of the 2002 Bonds, less original issue discount, if any, plus original issue premium, if any. The ability of the Board of Education, in its capacity as legislative body of the Community Facilities District, to increase the annual Improvement Area A Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of Improvement Area A. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the related 2002 Bonds. See "SECURITY FOR THE 2002 BONDS – Reserve Fund."

The Community Facilities District has also covenanted in the Bond Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Improvement Area A Special Taxes. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE 2002 BONDS – Proceeds of Foreclosure Sales."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2002 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF 2002 BONDS. THE 2002 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements for the development within Improvement Area A dated October 25, 2002 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2002 Bonds. The purpose of the appraisal was to prepare a complete appraisal of the taxable properties within Improvement Area A (also referred to as Neighborhood Two). The taxable properties include the model and production homes under construction and vacant residential land. In Improvement Area A, the taxable properties include 8 residential tracts which are expected to contain a total of approximately 565 Detached Units, of which as of October 23, 2002 there were approximately 6 models under construction, 14 production units under construction, and vacant lots or partially graded acreage for the remaining units. The Appraisal estimates the market value of each tract in Neighborhood Two.

The Appraisal is based on certain assumptions and limiting conditions. Subject to these assumptions and limiting conditions, as of October 23, 2002, the Appraiser estimated that the market value of the property within Improvement Area A (subject to the lien of the Improvement Area A Special Taxes and the lien of the Community Facilities District Special Taxes), including model and production homes under construction and vacant residential land, was as follows:

Merchant Builder/Landowner	Tract Name	Market Value
Centex Homes	Canyon Ridge at 4S Ranch	\$6,640,000
Belle Rive Development Company	Belle Rive at 4S Ranch	13,530,000
4S Kelwood	Remaining Land in Neighborhood Two	<u>52,650,000</u>
Total		\$72,820,000

The \$72,820,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 4.04 to 1 with respect to Improvement Area A, calculated with respect to direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2002 Bonds; *provided, however, the value-to-lien ratio does not include the \$25,000,000 of bonds issued by the Community Facilities District on October 10, 2002.* When homes are developed, such property will be subject to the levy of Community Facilities District Special Taxes and additional bonds of the Community Facilities District may be issued. Because sufficient development has occurred in Neighborhood One assuming no material delinquencies to support debt service on the \$25,000,000 aggregate principal amount of Community Facilities District No. 6 (4S Ranch) Special Tax Bonds, Series 2002 (the "Community Facilities District 2002 Bonds") and additional bonds will be issued in the future by the Community Facilities District, it is not possible to establish a lien of the Community Facilities District bonds on the property within Improvement Area A. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate value. A subsequent series of bonds for School Facilities by the Community Facilities District is estimated to be issued in the first quarter of 2005. See "SECURITY FOR THE 2002 BONDS – Rates and Methods – Improvement Area A Rate and Method,"

and “ – Community Facilities District Rates and Methods,” “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – 4S Kelwood and the Merchant Builders,” “ – Direct and Overlapping Debt” and BONDOWNERS’ RISKS – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal, for limiting conditions relating to the Appraisal and for information relating to overlapping indebtedness.

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2002 Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2002 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

Risk Factors Associated with Purchasing the 2002 Bonds

Investment in the 2002 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2002 Bonds.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” “anticipate” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A” and “ – Property Ownership” therein.

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 COMMUNITY FACILITIES DISTRICT AND THE SCHOOL DISTRICT DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

State Street Bank and Trust Company of California, N.A., Los Angeles, California, or its successor, will serve as the fiscal agent for the 2002 Bonds and will perform the functions required of it under the Bond Indenture for the payment of the principal of and interest and any premium on the 2002 Bonds and all activities related to the redemption of the 2002 Bonds. U.S. Bank, N.A. has entered into an agreement to acquire the trust business of State Street Bank and Trust Company of California, N.A. and upon completion of the purchase, the Fiscal Agent will be U.S. Bank, N.A. Best Best & Krieger LLP, San Diego, California, is serving as Bond Counsel to the Community Facilities District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the 2002 Bonds. McFarlin & Anderson, Lake Forest, California, is acting as Disclosure Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. David Taussig & Associates, Inc., Newport Beach, California, acted as special tax consultant, administrator and dissemination agent to the Community Facilities District.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2002 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2002 Bonds, certain sections of the Bond Indenture, security for the 2002 Bonds, special risk factors, the Community Facilities District, Improvement Area A, the School District, 4S Kelwood's and the Merchant Builders' projects, 4S Kelwood, the Merchant Builders 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 2002 Bonds, the Bond Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2002 Bonds, the Bond Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Associate Superintendent of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098. There may be a charge for copying and delivery of any documents.

CONTINUING DISCLOSURE

The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – "Form of Community Facilities District Continuing Disclosure Agreement" (the "Community Facilities District Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2002 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2002 Bonds by not later than January 31 in each year commencing on January 31, 2004 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or David Taussig & Associates, Inc., as Dissemination Agent on behalf of the Community Facilities District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the "Repositories"), with a copy to the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Fiscal Agent and the Underwriter. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a material event is set forth in the Community Facilities District Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Community Facilities District Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"); provided, however, a default under the Community Facilities District Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indenture, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

Neither the School District nor the Community Facilities District has ever failed to comply, in any material respect, with an undertaking under the Rule.

4S Kelwood. 4S Kelwood covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – "Form of Developer Continuing Disclosure Agreement" (the "Developer Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2002 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing October 1, 2003 (a "Developer Semi-Annual Report") and to provide notices of the occurrence of certain enumerated material events. 4S Kelwood's obligations under its Developer Continuing Disclosure Agreement terminates upon the occurrence of certain events. See APPENDIX F – "Form of Developer Continuing Disclosure Agreement." 4S Kelwood currently anticipates selling in excess of 80% of the property within Improvement Area A to Merchant Builders by the end of the third quarter of 2003 and anticipates that the initial Developer Semi-Annual Reports due October 1, 2003 will be the only report required of it under the terms of the Developer Continuing Disclosure Agreement.

The Developer Semi-Annual Reports will be filed by 4S Kelwood, or the "Dissemination Agent" (as that term is defined in the Developer Continuing Disclosure Agreement) on behalf of 4S Kelwood with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by 4S Kelwood, or by the Dissemination Agent on behalf of the 4 S Kelwood, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in a Developer Semi-Annual Report or the notices of material events is set forth in the Developer Continuing Disclosure Agreement. The covenants of 4S Kelwood in its Developer Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; provided, however, a default under a Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indenture, and the sole remedy under the Developer Continuing Disclosure Agreement in the event of any failure of 4S Kelwood or the Dissemination Agent to comply with the Developer Continuing Disclosure Agreement will be an action to compel performance.

4S Kelwood has indicated that it has never failed to comply in any material respect with an undertaking under the Rule to provide annual or semi-annual reports or notices of material events.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2002 Bonds will be deposited into the following respective accounts and funds established by the Community Facilities District under the Bond Indenture, as follows:

Sources

Principal Amount of 2002 Bonds	\$18,000,000.00
Less: Underwriter's Discount	<u>270,000.00</u>
<i>Total Sources</i>	<u>\$17,730,000.00</u>

Uses

Deposit into Reserve Fund ⁽¹⁾	\$1,776,135.08
Deposit into Costs of Issuance Fund ⁽²⁾	275,062.98
Deposit into Additional School Facilities Account of the Improvement Fund ⁽³⁾	3,500,000.00
Deposit into Infrastructure Improvement Account of the Improvement Fund ⁽³⁾	11,399,152.06
Deposit into Capitalized Interest Subaccount of the Bond Service Fund ⁽⁴⁾	754,649.88
Deposit into Administrative Expense Fund	<u>25,000.00</u>
<i>Total Uses</i>	<u>\$17,730,000.00</u>

⁽¹⁾ Equal to the Reserve Requirement with respect to the 2002 Bonds as of the date of delivery of the 2002 Bonds.

⁽²⁾ Includes, among other things, the fees and expenses of Bond Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant, reimbursement to the School District and 4S Kelwood of costs incurred in the formation of Improvement Area A.

⁽³⁾ See "INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS" below.

⁽⁴⁾ Represents capitalized interest on the 2002 Bonds through September 1, 2003.

INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS

Proceeds of the 2002 Bonds will be used to fund the acquisition of a portion of the Infrastructure Improvements. The Infrastructure Improvements include the acquisition, construction, expansion, improvement or rehabilitation of authorized facilities which will be owned and separated by the School District, the City, the County, Olivenhain Municipal Water District and the Rancho Santa Fe Fire Protection District. The School Facilities may include a swimming pool and related improvements at Rancho Bernardo High School. The facilities for Olivenhain Municipal Water District may include a pump station, water transmission pipeline along Artisan Road, potable water storage tanks, pipelines within the Community Facilities District and a 2 million gallon per day sewage treatment plant at Dove Canyon Road. County

facilities may include road improvements for Camino Del Norte, Camino San Bernardo, Dove Canyon Road and Bernardo Center, park improvements for a community park or neighborhood parks and a public library. Fire protection facilities may include costs relating to a fire station. The City facilities may include road improvements to Carmel Valley Road, Bernardo Center/Camino Del Norte, Rancho Bernardo Road widening at I-15 and Camino Del Norte Road widening at I-15. The additional school facilities may include a swimming pool and related improvements to be located at Rancho Bernardo High School.

The Community Facilities District, and in certain cases 4S Kelwood, have entered into separate joint community facilities agreements (each a "JCFA") specifying the Infrastructure Improvements to be financed by the Community Facilities District for the County, the City, the Olivenhain Municipal Water District, and the Rancho Santa Fe Fire Protection District.

THE 2002 BONDS

Authority for Issuance

The 2002 Bonds will be issued pursuant to the Act and the Bond Indenture.

General Provisions

The 2002 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2003 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2002 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2002 Bonds. Ownership interests in the 2002 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2002 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2002 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2002 Bonds in accordance with the procedures adopted by DTC. See "THE 2002 BONDS – Book-Entry and DTC."

The 2002 Bonds will bear interest at the rates set forth on the inside cover hereof payable on the Interest Payment Dates in each year. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2002 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, or (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the date of the 2002 Bonds; provided, however, that if at the time of authentication of a 2002 Bond, interest is in default, interest on that 2002 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on the 2002 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed by first class mail on the Interest Payment Dates (or on the next Business Day following the Interest Payment Date if such Interest Payment Date is not a Business Day) to the registered Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date. Such interest shall be paid by check of the Fiscal Agent mailed to such Bondowner at his or her address as it appears on the books of registration maintained by the Fiscal Agent or upon the request in writing prior to the Record Date of a Bond Owner of at least \$1,000,000 in aggregate principal amount of Bonds by wire transfer in immediately available funds (i) to DTC (so long as the 2002 Bonds are in book-entry form), or (ii) to an account in the United States of America designated by such Owner. Such instructions shall continue in effect until revoked in writing, or until such 2002 Bonds are transferred to a new Owner. The principal of the 2002 Bonds and any premium on the 2002 Bonds due upon the redemption thereof are payable by check in lawful money of the United States of America upon presentation and surrender of the 2002 Bonds at maturity or the earlier redemption thereof at the Principal Corporate Trust Office of the Fiscal Agent (currently in Los Angeles, California).

Debt Service Schedule

The following table presents the annual debt service on the 2002 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

2002 BONDS			
Year Ending September 1	Principal	Interest	Total Debt Service
2003		\$754,649.88	\$754,649.88
2004		1,078,071.26	1,078,071.26
2005		1,078,071.26	1,078,071.26
2006	\$15,000	1,078,071.26	1,093,071.26
2007	40,000	1,077,546.26	1,117,546.26
2008	65,000	1,076,026.26	1,141,026.26
2009	90,000	1,073,328.76	1,163,328.76
2010	115,000	1,069,278.76	1,184,278.76
2011	145,000	1,063,873.76	1,208,873.76
2012	175,000	1,056,768.76	1,231,768.76
2013	210,000	1,048,018.76	1,258,018.76
2014	250,000	1,037,203.76	1,287,203.76
2015	285,000	1,023,828.76	1,308,828.76
2016	330,000	1,008,153.76	1,338,153.76
2017	375,000	989,673.76	1,364,673.76
2018	425,000	968,298.76	1,393,298.76
2019	475,000	943,648.76	1,418,648.76
2020	535,000	915,623.76	1,450,623.76
2021	595,000	883,523.76	1,478,523.76
2022	660,000	847,526.26	1,507,526.26
2023	730,000	807,596.26	1,537,596.26
2024	810,000	763,431.26	1,573,431.26
2025	890,000	714,426.26	1,604,426.26
2026	975,000	660,581.26	1,635,581.26
2027	1,070,000	600,862.50	1,670,862.50
2028	1,165,000	535,325.00	1,700,325.00
2029	1,275,000	463,968.76	1,738,968.76
2030	1,385,000	385,875.00	1,770,875.00
2031	1,505,000	301,043.76	1,806,043.76
2032	1,635,000	208,862.50	1,843,862.50
2033	<u>1,775,000</u>	<u>108,718.76</u>	<u>1,883,718.76</u>
Total	\$18,000,000	\$25,621,877.64	\$43,621,877.64

Redemption

Optional Redemption. The 2002 Bonds maturing on and after September 1, 2011 may be redeemed at the option of the Community Facilities District prior to maturity, as a whole or in part on any Interest Payment Date on and after September 1, 2010, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, from any source of funds, at the following redemption prices (expressed as percentages of the principal amount of the 2002 Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2010 and March 1, 2011	102%
September 1, 2011 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2002 Bonds, the Fiscal Agent shall select the 2002 Bonds to be redeemed, among maturities as directed by the Community Facilities District which shall specify the 2002 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding 2002 Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2002 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate.

Redemption from Proceeds of Special Tax Prepayment. The 2002 Bonds are subject to redemption on any Interest Payment Date, prior to maturity, as a whole or in part on a pro rata basis among maturities and by lot within a maturity from prepayment of Special Taxes levied pursuant to the Improvement Area A Rate and Method. The Community Facilities District shall deliver written instructions to the Fiscal Agent not less than 60 days prior to the redemption date directing the Fiscal Agent to utilize the Special Tax Revenues transferred to the Redemption Fund pursuant to the Bond Indenture to redeem the 2002 Bonds. The Fiscal Agent shall select 2002 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate. Such extraordinary mandatory redemption of the 2002 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2002 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2003 through March 1, 2011	102%
September 1, 2011 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The 2002 Bonds maturing on September 1, 2025, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2021, at a redemption price equal to the principal amount of the 2002 Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

2026 TERM BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2021	\$595,000
2022	660,000
2023	730,000
2024	810,000
2025 (maturity)	890,000

The 2002 Bonds maturing on September 1, 2033, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2026, at a redemption price equal to the principal amount of the 2002 Bonds to be redeemed, plus accrued and unpaid interest thereon to the date

fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

<u>2033 TERM BONDS</u>	
<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2026	\$ 975,000
2027	1,070,000
2028	1,165,000
2029	1,275,000
2030	1,385,000
2031	1,505,000
2032	1,635,000
2033 (maturity)	1,775,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the 2002 Bonds pursuant to an optional redemption or redemption from proceeds of Special Tax prepayments as specified in writing by the Community Facilities District to the Fiscal Agent.

Purchase In Lieu of Redemption. In lieu of any optional, mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such 2002 Bonds at public or private sale as and when, and at such prices as such written direction may provide; provided, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof shall not exceed the principal amount thereof, plus accrued interest accrued to the purchase date and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Bond Indenture.

Notice of Redemption. The Fiscal Agent shall mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the 2002 Bonds at the addresses appearing on the Bond registry books. So long as notice by first class mail has been provided as set forth below, the actual receipt by the Owner of any 2002 Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for redemption of such 2002 Bonds or the cessation of interest on the date fixed for redemption.

Such notice shall (i) state the redemption date; (b) state the redemption price; (c) state the bond registration numbers, dates of maturity and CUSIP numbers of the 2002 Bonds to be redeemed, and in the case of 2002 Bonds to be redeemed in part, the respective principal portions to be redeemed; provided, however, that whenever any call includes all 2002 Bonds of a maturity, the numbers of the 2002 Bonds of such maturity need not be stated; (d) state that such 2002 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2002 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2002 Bonds as originally issued; (g) state the rate of interest borne by each 2002 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2002 Bonds being redeemed as the Community Facilities District shall direct.

Effect of Redemption. When notice of redemption has been given substantially as provided for in the Bond Indenture, and when the amount necessary for the redemption of the 2002 Bonds called for redemption has been set aside for that purpose in the Redemption Fund as to Bonds subject to optional redemption or the 2002 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2002 Bonds at the place specified in the notice of redemption, said 2002 Bonds shall be redeemed and paid at the redemption price out of the applicable Redemption Fund and no interest will accrue on such 2002 Bonds or portions of 2002 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2002 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2002 Bonds or portions of 2002 Bonds only to said Redemption Fund.

Registration, Transfer and Exchange

Registration. The Fiscal Agent will **keep sufficient books** for the registration and transfer of the 2002 Bonds, 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 register, the Bonds as hereinbefore provided. The Community Facilities District and the Fiscal Agent will treat the owner of any Bond whose name appears on the **Bond Register** as the holder and absolute Owner of such Bond for all purposes under the Bond Indenture, and the Community Facilities District and the Fiscal Agent shall not be affected by any notice to the contrary.

Transfers of Bonds. The transfer of any 2002 Bond may be registered only upon such books of registration upon surrender thereof to the Fiscal Agent, together with an assignment duly executed by the Owner or his attorney or legal representative, in **satisfactory form**. Upon any such registration of transfer, a new 2002 Bond or Bonds shall be **authenticated and delivered** in exchange for such 2002 Bond, in the name of the transferee, of any denomination or **denominations** authorized by the Bond Indenture, and in an aggregate principal amount equal to the **principal amount** of such 2002 Bond or Bonds so surrendered. The Fiscal Agent may make a charge for every such **exchange** or registration of transfer of Bonds sufficient to reimburse it for any tax or other governmental **charge** required to be paid with respect to such transfer or exchange. The Fiscal Agent shall not be required to **register** transfers or make exchanges of (i) 2002 Bonds for a period of 15 days next preceding to the date of any selection of the 2002 Bonds for redemption, or (ii) any 2002 Bonds chosen for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of 2002 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the **Bond Indenture**, including the payment of certain charges, if any, upon surrender and cancellation of a 2002 Bond.

Book-Entry and DTC

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2002 Bonds. The 2002 Bonds will be issued as **fully registered securities** registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2002 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX H – "Book-Entry and DTC."

SECURITY FOR THE 2002 BONDS

General

The 2002 Bonds are secured by a first **pledge of all** of the Net Special Tax Revenues and all moneys deposited in the Bond Service Fund and in the **Reserve Fund** and, until disbursed as provided in the Bond Indenture, in the applicable Special Tax Fund. Pursuant to the Act and the Bond Indenture, the Community Facilities District will annually levy the **Special Taxes** in an amount required for the payment of principal of, and interest on, any outstanding 2002 Bonds **becoming due** and payable during the ensuing year, including any necessary replenishment or expenditure of the **Reserve Fund** for the 2002 Bonds and an amount estimated to be sufficient to pay the **Administrative Expenses** during such year. The Net Special Tax Revenues and all moneys deposited into the **applicable accounts** (until disbursed as provided in the Bond Indenture) are pledged to the payment of the **principal of**, and interest and any premium on, the 2002 Bonds as provided in the Bond Indenture and in the Act **until all** of the Bonds have been paid and retired or until moneys or Federal Securities (as defined in the **Bond Indenture**) have been set aside irrevocably for that purpose.

Amounts in the **Administrative Expense Fund**, the **Costs of Issuance Fund**, the **Improvement Fund** and the **Rebate Fund** are not pledged to the **repayment of the 2002 Bonds**. The **Infrastructure Improvements** constructed and acquired with the proceeds of the 2002 Bonds are not in any way pledged to pay the debt service on the 2002 Bonds. Any proceeds of **condemnation** or destruction of any facilities financed with the proceeds of the 2002 Bonds are not pledged to pay the debt service on the 2002 Bonds.

Special Taxes

The Community Facilities District has covenanted in the Bond Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes, including without limitation, the enforcement of delinquent Special Taxes. The Improvement Area A Rate and Method provides that the Special Taxes are payable and will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that the Community Facilities District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Improvement Area A Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2002 Bonds. The Special Taxes levied pursuant to the Improvement Area A Rate and Method are not available to pay principal of or interest on the Community Facilities District Bonds. The Special Taxes levied pursuant to the Community Facilities District Rate and Method are not available to pay principal of or interest on the 2002 Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation, it does not constitute a personal indebtedness of the owners of property. There is no assurance that the owners of real property will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. For example, in June 2000, an affiliate of 4S Kelwood acquired an entity with an interest in a project in Los Angeles County. The affiliate entered into negotiations for the sale and conveyances of that property to another entity with an interest in such property. The negotiations did not proceed as expected and the other entity filed a lawsuit against the 4S Kelwood affiliate. During the pendency of the litigation, the second property tax installment for the 2000-01 tax year became due and was not paid by either party with an interest in the property pending resolution of the litigation. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – 4S Kelwood and the Merchant Builders – 4S Kelwood - History of Property Tax Payment; Loan Defaults; Bankruptcy" for a description of the circumstances relating to such special tax default. See also, "BONDOWNERS' RISKS" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2002 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2002 BONDS. THE 2002 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA A RATE AND METHOD MORE FULLY DESCRIBED HEREIN.

Rates and Methods

General. In 1998 pursuant to the request of landowners, the School District established the Community Facilities District with respect to approximately 2,888 gross acres of land within the boundaries of the School District. Since that time the estimated units have been revised to approximately 4,715 units (approximately 2,975 Detached Units, approximately 1,599 Attached Units, and approximately 141 Affordable Units). Approximately 529 of the Attached Units and approximately 21 of the Affordable Units are expected to be located in a 550 unit apartment complex in Neighborhood Four on property currently zoned for commercial use. 120 Affordable Units will be in Neighborhood One. Affordable Units are not subject to the levy of the Special Tax.

In the third quarter of 2001, 4S Kelwood requested that the School District institute proceedings pursuant to the Act to (a) create a new community facilities district or designate improvement areas in the Community Facilities District and (b) authorize the community facilities district to issue bonded indebtedness and to levy additional special taxes to fund, in addition to those School Facilities authorized to be funded by the Community Facilities District, certain other public improvements. The proceedings to designate the Improvement Areas and authorize this levy of additional special taxes and the issuance of additional bonds were completed on October 21, 2002. See "Improvement Area A Rate and Method" below. Improvement

Area A relates to approximately 141 net acres of land within the boundaries of the Community Facilities District. This area is also referred to as Neighborhood Two. Improvement Area A is proposed to include 565 detached dwelling units.

4S Kelwood participated in the proceedings for formation of the Community Facilities District and for formation of Improvement Area A. Pursuant to such proceedings, the Community Facilities District Special Tax may be levied and collected within all of the Community Facilities District to finance School Facilities according to the Community Facilities District Rate and Method, a copy of which is set forth in Appendix B. See "Community Facilities District Rate and Method" below.

The qualified electors of the Community Facilities District approved the Improvement Area A Rate and Method on October 21, 2002. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Improvement Area A Rate and Method.

Improvement Area A Rate and Method. The Improvement Area A Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Improvement Area A of the Community Facilities District up to the applicable Maximum Special Tax to pay for the Infrastructure Improvements. The 2002 Bonds, when issued, will fund a portion of the costs of the Infrastructure Improvements and will be secured by any annual Special Taxes levied pursuant to the Improvement Area A Rate and Method. The Improvement Area A Rate and Method provides that the Annual Special Tax shall be levied for a term of 33 Fiscal Years after the issuance of the 2002 Bonds, but in no event later than Fiscal Year 2040-41. A copy of the Improvement Area A Rate and Method is included in Appendix B hereto.

Annual Improvement Area A Special Tax Requirement. Annually, at the time of levying the Special Tax for Improvement Area A, the Associate Superintendent shall reasonably determine the amount of money to be collected from Taxable Property in Improvement Area A (the "Annual Special Tax Requirement"), which will be the amount required in any Fiscal Year to pay the following:

- (i) the annual debt service on all outstanding 2002 Bonds;
- (ii) the Administrative Expenses of Improvement Area A of the Community Facilities District,
- (iii) any costs associated with the release of funds from an escrow account,
- (iv) any amount required to establish or replenish any reserve funds established in association with the 2002 Bonds, less
- (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable Bond Indenture.

Developed and Undeveloped Property; Exempt Property. The Improvement Area A Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within Improvement Area A shall be classified as Taxable Property or Exempt Property. Each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property. Each Assessor's Parcel of Developed Property shall be classified as a Detached Unit or an Attached Unit and each Detached Unit and Attached Unit shall be classified according to its Building Square Footage.

(i) "Developed Property" means all Assessor's Parcels of Taxable Property for which a building permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board of Education.

(ii) "Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

(iii) "Taxable Property" means all Assessor's Parcels which are not Exempt Property (as defined below) pursuant to the Improvement Area A Rate and Method.

(iv) "Exempt Property" is defined to include the following:

- (a) Assessor's Parcels owned by the State, federal or other local governments;
- (b) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization,
- (c) Assessor's Parcels used exclusively by a homeowner's association,
- (d) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and
- (e) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 126.90 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 126.90 acres of Acreage will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

Maximum Special Tax. The Maximum Special Tax is defined in the Improvement Area A Rate and Method as follows:

(i) Developed Property: The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax.

(ii) Undeveloped Property: The Maximum Special Tax for each Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax.

The Assigned Annual Special Tax in Fiscal Year 2002-03 for Developed Property ranges from \$524.75 to \$2,530.17 for Detached Units and ranges from \$195.84 to \$524.75 for Attached Units. Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel classified as Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Table 1 of the Improvement Area A Rate and Method in Appendix B herein for a listing of the Assigned Annual Special Tax rates.

The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2002-03 will be determined by the formula indicated in Section E of the Improvement Area A Rate and Method set forth in Appendix B.

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2002-03 shall be \$9,822.00 per acre of Acreage. Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

The minimum taxable acreage is 126.9 0 acres of Acreage for Improvement Area A.

Method of Apportionment. The Improvement Area A Rate and Method provides that commencing Fiscal Year 2002-03 and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Improvement Area A of the Community Facilities District in such Fiscal Year. The Annual Special Tax shall be levied as follows:

First: The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

Second: If the sum of the amounts levied on Assessor's Parcels in the first step above is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

Third: If the sum of the amounts levied on Assessor's Parcels in the first and second steps above is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Annual Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Backup Annual Special Tax to satisfy the Annual Special Tax Requirement.

Prepayment of Annual Special Taxes. The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be prepaid in full. The Prepayment Amount for an applicable Assessor's Parcel after the issuance of Bonds is calculated based on Bond Redemption Amounts and other costs, all as specified in APPENDIX B – "First Amended Rate and Method of Apportionment for Community Facilities District No. 6 of the Poway Unified School District (Improvement Area A) – Section G" therein.

Partial Prepayment of Annual Special Taxes. In addition, at the time a Final Map is recorded for any Taxable Property, the owner filing said Final Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Map to prepay a portion of the applicable Annual Special Tax obligation.

The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of the first Building Permit, all as specified in APPENDIX B – "First Amended Rate and Method of Apportionment for Improvement Area A of Community Facilities District No. 6 of the Poway Unified School District and Rate and Method of Apportionment of Community Facilities District No. 6 of the Poway Unified School District – Section H" therein.

Community Facilities District Rate and Method. The Community Facilities District Rate and Method provides the means by which the Board of Education may annually levy the Community Facilities District Special Taxes within the Community Facilities District up to the applicable Maximum Community Facilities District Special Tax to pay for School Facilities. The first series of the Community Facilities District bonds (i.e., the Community Facilities District 2002 Bonds) were issued on October 10, 2002, to fund School Facilities and are secured by any annual Special Taxes levied pursuant to the Community Facilities District Rate and Method. The Community Facilities District Rate and Method provides that the Annual Community Facilities District Special Tax shall be levied for a term of 25 Fiscal Years after the issuance of the last bond series, but in no event later than Fiscal Year 2045-46. A copy of the Community Facilities District Rate and Method is included in Appendix B hereto.

In Fiscal Year 2002-03, the Community Facilities District Assigned Annual Special Tax is \$2,070.28 for Detached Units and \$915.70 for Attached Units. Affordable Units are not subject to the Community Facilities District Special Tax. Each July 1, commencing July 1, 1998, the Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property increases by the greater of the annual percentage change in the Index (as defined in the Community Facilities District Rate and Method) or 2.00% of the amount in effect in the prior Fiscal Year. Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to an Assessor's Parcel is increased by 2.00% of the amount in effect in the prior Fiscal Year. See Table 1 in the Community Facilities District Rate and Method in Appendix B herein for a listing of the Assigned Annual Special Tax rates in the Community Facilities District.

Other Improvement Area Rates and Methods. The Improvement Area Rates and Methods provide the means by which the Board of Education may annually levy special taxes within each Improvement Area up to the applicable Maximum Special Tax authorized pursuant to such Improvement Area Rates and Methods to pay for Infrastructure Improvements. Neighborhood One is not within any Improvement Area. Improvement Area B encompasses Neighborhood Three and approximately \$30,000,000 of bonds are authorized for Improvement Area B. Improvement Area C encompasses Neighborhood Four (except for approximately 36 proposed Detached Units) and \$14,000,000 of bonds are proposed to be authorized for Improvement Area C. *While the 2002 Bonds do include funding for Infrastructure Improvements, the 2002 Bonds are not secured by any special taxes proposed to be levied pursuant to the Improvement Area B or Improvement Area C Rates and Methods or the Community Facilities District Rate and Method.* Each of the Improvement Area special taxes rates and the Community Facilities District special tax rates are subject to escalation by 2% of the amount in effect in the prior Fiscal Year thereafter. The value to lien estimates set forth in the sections captioned "INTRODUCTION – Appraisal" and in "COMMUNITY

FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Appraised Property Values” do not include the overlapping indebtedness expected to be incurred with respect to the Community Facilities District.

Proceeds of Foreclosure Sales

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

Under the Bond Indenture, on or before June 1 of each Fiscal Year, the Community Facilities District will review the public records of the County of San Diego, California, to determine the amount of Special Taxes actually collected in such Fiscal Year and proceed as follows:

Individual Delinquencies. If the Community Facilities District determines that (i) any single parcel subject to the Special Tax is delinquent in the payment of the Special Taxes in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Special Taxes is delinquent in the payment of the Special Taxes in the aggregate of \$10,000 or more, the Community Facilities District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The Community Facilities District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

Aggregate Delinquencies. If the Community Facilities District determines that it has collected less than 95% of the Special Taxes levied in such Fiscal Year, then the Community Facilities District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The Community Facilities District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

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

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See “BONDOWNERS’ RISKS – Potential Delay and Limitations in Foreclosure Proceedings.” If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the 2002 Bonds outstanding.

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

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2002 Bonds by the Bond Indenture.

Special Tax Fund

Pursuant to the Bond Indenture, the Special Tax Revenues received by the Community Facilities District, excluding only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund and Special Tax Revenues representing Prepayments, will be deposited in the Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Special Tax Revenues representing Prepayments shall be transferred to the Interest Account of the Bond Service Fund and the Redemption Fund and utilized to pay the interest and premium, if any, on and the principal of Bonds to be redeemed. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the 2002 Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners of the 2002 Bonds as established under the Bond Indenture.

Disbursements. Moneys in the Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) an amount up to the Administrative Expense Requirement to pay Administrative Expenses, (ii) amounts required to be deposited into the applicable Accounts in the Bond Service Fund in order to pay debt service on the 2002 Bonds, any parity bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the Reserve Fund to the Reserve Requirement (as defined below), (iv) amounts required to fund the Rebate Fund and (v) additional amounts required to pay Administrative Expenses. At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the foregoing deposits for the current Bond Year (as that term is defined in the Bond Indenture), any amounts in excess of such amounts remaining in the Special Tax Fund shall remain on deposit in the Special Tax Fund and shall be subsequently deposited or transferred pursuant to the above provisions provided, however, that if the Community Facilities District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the Rate and Method) then an amount up to such excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, improvement of School Facilities and related expenses.

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

Bond Service Fund

The Fiscal Agent will hold the Bond Service Fund in trust for the benefit of the Bondowners. Within the Bond Service Fund the Fiscal Agent will create and hold an Interest Account and a Principal Account.

On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Service Fund and pay to the owners of the 2002 Bonds the principal, interest and any premium then due and payable on the 2002 Bonds, including any amounts due on the 2002 Bonds by reason of the sinking payments or a redemption of the 2002 Bonds.

If amounts in the Bond Service Fund are insufficient for the purposes set forth in the preceding paragraph, the Fiscal Agent will withdraw the deficiency from the Reserve Fund to the extent of any funds therein.

Redemption Fund

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

Reserve Fund

In order to further secure the payment of principal of and interest on the 2002 Bonds, certain proceeds of the 2002 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). Reserve Requirement is defined in the Bond Indenture to mean, as of any date of calculation, an amount equal to the least of (i) the then maximum annual debt service on the Bonds, (ii) 125% of the then average annual debt service on the Bonds, or (iii) 10% of the initial principal amount of the Bonds, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of 2002 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of such 2002 Bonds to be redeemed and the original principal of such 2002 Bonds) will be applied to the redemption of such 2002 Bonds.

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

See APPENDIX D – "Summary of Certain Provisions of the Bond Indenture" for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

Administrative Expense Fund

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

Pursuant to the Bond Indenture, moneys in the Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the Bonds and will not be available for the payment of debt service on the 2002 Bonds.

Improvement Fund

The Fiscal Agent will deposit proceeds of the 2002 Bonds in the Improvement Fund. Moneys in the Improvement Fund will be disbursed to pay for Infrastructure Improvements pursuant to a requisition of the Community Facilities District.

Pursuant to the Bond Indenture, moneys in the Improvement Fund will not be construed as a trust fund held for the benefit of the Owners of the Bonds and will not be available for the payment of debt service on the 2002 Bonds.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Bond Indenture and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, as directed by the Community Facilities District, that mature prior to the date on which such moneys are required to be paid out under the Bond Indenture. In the absence of any direction from the Community Facilities District, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in money market funds rated "AAM-1" or "AAM-G" by S&P, or better (including those of the Fiscal Agent or its affiliates). See APPENDIX D – "Summary of Certain Provisions of the Bond Indenture" for a definition of "Permitted Investments."

Letters of Credit/Cash Deposit

As a condition precedent to issuance of the 2002 Bonds, 4S Kelwood or the applicable Merchant Builder shall provide a Letter of Credit in the applicable Stated Amount therefor (having the Fiscal Agent as beneficiary) for each discrete development (each a "Project Area") or a cash deposit in lieu thereof. The Letter of Credit and/or cash deposit shall secure payment of Special Taxes levied against the applicable Project Area within Improvement Area A. The Stated Amount is the estimated amount of Special Tax to be levied in the next Fiscal Year with respect to the applicable Project Area.

The Letter of Credit, or a Substitute Letter of Credit issued with respect thereto, shall be in effect in each Fiscal Year that individual homeowners own fewer than 60% of the lots within the applicable Project Area.

In the event fewer than 60% of the lots within the applicable Project Area are owned by individual homeowners as of each June 1, then the Community Facilities District shall cause 4S Kelwood or the applicable Merchant Builder to provide to the Fiscal Agent, no later than the following June 15, (a) a Letter of Credit in the then-Stated Amount, (b) an irrevocable written commitment of a Letter of Credit Bank to provide a Letter of Credit in the then-Stated Amount or to extend the existing Letter of Credit in an amount equal to the then-Stated Amount, effective the next succeeding July 1 or (c) a cash deposit in lieu thereof.

In the event the Fiscal Agent does not receive (a) a Letter of Credit, (b) a Substitute Letter of Credit or (c) a cash deposit in lieu of the foregoing by June 15 of each year (assuming the Letter of Credit is required to be in effect during the next succeeding Fiscal Year), the Fiscal Agent shall, upon the written direction of an Authorized Officer, immediately, with no further authorization or instruction, draw upon the applicable Letter of Credit in the full Stated Amount. The Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund for use as described below.

Deposits into the Letter of Credit Fund; Transfers from the Letter of Credit Fund.

Draws Prior to an Interest Payment Date. Ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund for that Interest Payment Date will be sufficient to pay principal of and interest on the 2002 Bonds that will be due and payable on such Interest Payment Date and notify the Community Facilities District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on the 2002 Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties in the applicable Project Area owned by 4S Kelwood or a Merchant Builder pursuant to the Impact Mitigation Agreement or an Affiliate of 4S Kelwood, the Fiscal Agent shall upon the receipt of written direction of an Authorized Officer (prior to any withdrawals from the applicable Reserve Fund permitted by the applicable Bond Indenture) draw upon the applicable Letter of Credit or withdraw money from the cash deposit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Officer) shall equal the delinquent Special Taxes levied on such properties.

The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any cash deposit from the Letter of Credit Fund to the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a cash deposit, the Community Facilities District, shall, upon receipt of Delinquency Proceeds representing the Improvement Area A Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a cash deposit, (a) reimburse the applicable Letter of Credit provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) replenish the cash deposit from such Delinquency Proceeds in an amount not to exceed such transfer.

Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or cash deposit is not provided within fifteen (15) days prior to the stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the Community Facilities District. In the event the Fiscal Agent makes such a draw

upon a Letter of Credit, the Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described in "*Draws Prior to an Interest Payment Date*" above, such proceeds shall be invested and reinvested by the Fiscal Agent in Government Obligations or money market funds. At no time shall the Community Facilities District direct that the proceeds of a draw on any Letter of Credit held in a Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the 2002 Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

Final Release of Moneys from the Letter of Credit Fund. If a Letter of Credit may be terminated pursuant to the terms of the Bond Indenture, the Community Facilities District shall provide written notice of such termination to the Fiscal Agent with instructions directing the Fiscal Agent to return the Letter of Credit or cash deposit to the applicable party.

Actions by the Community Facilities District. In the event a Letter of Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District, on behalf of the owners of the applicable 2002 Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling such Letter of Credit Bank to honor such drawing and to enforce the provisions of such Letter of Credit.

Compliance with Letter of Credit Requirements

The following describes how 4S Kelwood and each Merchant Builder intends to comply with the requirement to provide a Letter of Credit or cash deposit.

4S Kelwood. 4S Kelwood has obtained a Letter of Credit from California Bank & Trust ("California Bank & Trust") in connection with the issuance of the 2002 Bonds in the aggregate Stated Amount of the Letter of Credit requirement for the 2002 Bonds. The stated amount of the Letter of Credit may be reduced as sales to Merchant Builders occur and Merchant Builders post Letters of Credit or cash deposits satisfying the Letter of Credit/cash deposit requirement.

California Bank & Trust is a national banking organized under the laws of the United States of America and is a subsidiary of Zions Bancorporation ("Zions Bancorporation"). Zions Bancorporation is listed on the National Association of Securities Dealers Automated Quotation system (NASDAQ) under the trading symbol "ZION." Information about California Bank & Trust and Zions Bancorporation is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation ("FDIC"). 4S Kelwood will keep its Letter of Credit in place for the portion of the property under contract to the Merchant Builders until such time as such merchant builder substitutes its respective Letter of Credit or cash deposit. At that time 4S Kelwood's Letter of Credit will be proportionately reduced.

California Bank & Trust and Zions Bancorporation websites are calbanktrust.com and zionsbancorporation.com. *These Internet addresses are included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Centex Homes. Centex Homes proposes to satisfy the letter of credit/cash deposit requirement through a cash deposit.

Payment of Rebate Obligation

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

Parity Bonds

Bonds issued on a parity with the 2002 Bonds (“Parity Bonds”) may be issued for refunding purposes and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Bond Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent.

The aggregate principal amount of the 2002 Bonds and all Parity Bonds issued may not exceed \$18,000,000; provided, however, that, notwithstanding the foregoing, Parity Bonds may be issued at any time to refund Outstanding Bonds where the issuance of such Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Bonds.

See APPENDIX D – “Summary of Certain Provisions of the Bond Indenture.”

Special Taxes Are Not Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include assessments, reassessments and special taxes in its Teeter program. The Special Taxes are not included in the County’s Teeter Program.

COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A

General Information

The Community Facilities District is located in the unincorporated area of the County approximately 23 miles north of downtown San Diego and approximately 10 miles inland from the Pacific Ocean and the coastal cities of Encinitas and Solana Beach. The Community Facilities District is located approximately 8 miles east of Interstate 5 and approximately 2 miles west of Interstate 15. The Community Facilities District lies within the area of the new master-planned community known as "4S Ranch" and is part of the specific plan area known as "4S Ranch." The Community Facilities District is an extension of the on-going development of the community of Rancho Bernardo. The Community Facilities District is comprised of approximately 2,888 gross acres (553 net residential acres) of rolling terrain with slopes and knolls within 4S Ranch. A map of the 4S planning areas is provided on the preceding page. Certain planning areas on the 4S Ranch Planning Area map are not a part of the Community Facilities District. Improvement Area A is comprised of Planning Areas 2, 4, 6, 7, 8, 10, 11 and 13 located in the lower portion of the Planning Area map.

The Community Facilities District is within 4S Ranch. 4S Ranch is bordered on the south by Black Mountain Ranch and Rancho Penasquitos, to the west by the Santa Fe Valley Specific Planning Area, to the northwest by the Ranch Cielo Specific Planning Area, and to the east by Rancho Bernardo. Rancho Bernardo Road bisects 4S Ranch and Camino Del Norte enters 4S Ranch from the east. Extension of State Route 56 from Interstate 5 to Interstate 15 located approximately 2 miles south of 4S Ranch is fully funded and started construction in June 2001 with completion scheduled for the third quarter of 2004. The area is bounded on the east by completed Rancho Bernardo subdivisions and on the north, east and west by undeveloped property.

The residential land uses in the 4S Ranch Specific Plan are arranged around a mixed-use district which is located in the central portion of the community north of Camino Del Norte. The mixed-use district is approximately 52 net commercial acres, of which 22 are proposed for residential use, and is planned to serve the 4S Ranch community as well as existing and planned neighborhoods west of Interstate 15. The residential areas include Neighborhoods One and Two located to the south of the mixed-use district, and Neighborhoods Three and Four located north of the mixed-use district. Rancho Bernardo Road and 4S Ranch Parkway will provide the primary access to Neighborhoods Three and Four. Neighborhoods close to the mixed-use district are higher density containing a mixture of single-family and multi-family units. Neighborhoods further to the north and south are lower density single-family units.

The Neighborhoods

- *Neighborhood One* is within the Community Facilities District but is not encompassed by any Improvement Area. Neighborhood One is the initial phase of development within 4S Ranch and is approximately 145 net residential acres in size and will include a total of 1,084 Detached Units and 120 Affordable Units. Neighborhood One also includes a neighborhood park, a proposed 10-acre elementary school site and the water reclamation facility serving the project. Neighborhood One is not within any of the Improvement Areas.

- *Neighborhood Two* is within Improvement Area A and is approximately 141 net residential acres located south of Neighborhood One. The neighborhood is proposed to include approximately 565 Detached Units, a proposed 23-acre middle school site and a 22-acre community park. Bernardo Center Drive/Carmel Valley Road passes through this Neighborhood. The central portion of Neighborhood Two includes the Lusardi Creek Natural Park, which has been planned as a major open-space corridor comprising approximately 161 gross acres. Neighborhood Two is co-terminus with Improvement Area A.

- *Neighborhood Three* is within Improvement Area B and is located north of the mixed-use district. Neighborhood Three is approximately 182 net residential acres and is proposed to include approximately 1,001 Detached Units and 1,070 Attached Units. Neighborhood Three also includes a proposed elementary school site and neighborhood park.

- *Neighborhood Four* is within Improvement Area C and is located north of Neighborhood Three. Neighborhood Four is approximately 85 net residential acres in size and is proposed to include approximately

325 Detached Units, 36 of which are located on land not owned by 4S Kelwood. The foregoing acreage does not include the 52 acres in the 4S Commons (PA 32) area which is currently zoned for commercial use. Approximately 22 of such 52 acres is proposed for an apartment complex of approximately 550 units, 529 of which are expected to be Attached Units and 21 of the apartments are expected to be Affordable Units. Neighborhood Four includes a small neighborhood park. Natural open space areas in Neighborhood Four are located north, east and west of the residential area and total over 300 gross acres.

Drainage is and will be within master-planned facilities throughout the community. Neighborhood One is generally above grade of Camino Del Norte, and then gradually sloping down to the south into Neighborhood Two. Neighborhoods Three and Four have a gradual slope up to the north. None of the developable areas in 4S Ranch are within a 100-year flood plain.

Improvement Area A encompasses Neighborhood Two only and does not include any of the property within Neighborhoods One, Three or Four.

4S Ranch Specific Plan. The 4S Ranch Specific Plan was adopted by the Board of Supervisors of the County in November, 1998. The Specific Plan Area is adjacent to the northern boundary of the City. The Community Facilities District is in an unincorporated area of the County and is not currently within the sphere of influence of any existing city. The 4S Specific Plan provided direction for future development of the property located within the Community Facilities District. 4S Ranch is expected to ultimately include approximately 4,715 dwelling units, schools, neighborhood parks, an employment center, a commercial and industrial property and approximately 1,612 acres of open space designated as Multiple Species Conservation Plan (MSP) Preserve.

Utility services for parcels in the Community Facilities District will be provided by San Diego Gas & Electric (gas and electricity), the Olivenhain Municipal Water District (water and sewage), Cox Communication and Time Warner (cable), and Pacific Bell Telephone (telephone). Waste Management and EDCO provide refuse service.

Authority for Issuance

The 2002 Bonds are issued pursuant to the Act and the Bond Indenture. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2002 Bonds:

Resolutions of Intention: On September 16, 2002, the Board of Education adopted Resolution No. 19-2003 stating its intention to establish Improvement Area A, Improvement Area B and Improvement Area C and to authorize the levy of a special tax therein pursuant to a separate Rate and Method of Apportionment of Special Tax for each such Improvement Area. The Improvement Area A Rate and Method will finance Infrastructure Improvements. See "INFRASTRUCTURE IMPROVEMENTS TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS" herein.

Resolution of Formation: Immediately following a noticed public hearing on October 21, 2002, the Board of Education adopted Resolution No. 30-2003 (the "Resolution of Formation"), which established Improvement Area A the Community Facilities District, established the Rate and Method and authorized the levy of a special tax within the Community Facilities District pursuant to the Rate and Method of Apportionment.

Landowner Election and Declaration of Results: On October 21, 2002, an election was held within the Community Facilities District, in which the landowners eligible to vote (4S Kelwood), being the qualified electors, approved the ballot proposition authorizing the issuance of up to \$18,000,000 in bonds to finance the acquisition and construction of the Infrastructure Improvements. The qualified electors within the Community Facilities District also approved the levy of a special tax in accordance with the Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

On October 21, 2002, the Board of Education adopted Resolution No. 31-2003 pursuant to which the Board of Education approved the canvass of the votes.

Special Tax Lien and Levy: Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of San Diego County on November 14, 2002 as Document No. 2002-1019182.

Ordinance Levying Special Taxes: On October 21, 2002, the Board of Education adopted an Ordinance No. 2003-1 levying the Special Tax within the Community Facilities District.

Resolution Authorizing Issuance of the 2002 Bonds: On November 18, 2002, the Board of Education adopted Resolution No. 36-2003 approving issuance of the 2002 Bonds.

Environmental Review

In conjunction with the County's approval of the 4S Ranch Specific Plan, the Board of Supervisors of the County, on November 4, 1998 certified the 4S Ranch Specific Plan Environmental Impact Report (Specific Plan Amendment (SPA 95-01), Rezone (R95-01), Tentative Maps (TM 5066, TM 5067), Major Use Permit Modification (P87-036w³), Modification to Agricultural Preserve #60, Vacation of Two Open Space Easements VAC 97-001, VAC 97-002) County Log No. 95-8-1; State Clearinghouse No. 95021002) (the "EIR") as being in compliance with the California Environmental Quality Act ("CEQA"). The statutory period within which a court action or proceeding could be filed challenging the County's CEQA compliance with respect to its approvals has expired. The County Planning Commission has also approved Tentative Maps for Neighborhood Two (TM 5216) and Neighborhoods Three and Four (TM 5229). However, it is possible that future discretionary approvals necessary to complete the development of the property in the Community Facilities District will be subject to CEQA. Challenges to such discretionary approvals could slow the rate of development in the Community Facilities District. The Community Facilities District believes that no action with respect to environmental compliance is necessary in connection with the formation of the Community Facilities District.

Pursuant to CEQA, in addition to the County's certification of the EIR, additional environmental analysis is required to be conducted for the County's review to determine whether the analysis contained in the EIR with respect to the property in the Community Facilities District has adequately addressed the environmental impact of each subsequent discretionary approval related thereto. 4S Kelwood reports that the reviews by the County conducted to date have resulted in findings of no significant impact not previously discussed in the EIR. 4S Kelwood generally expects that, as further entitlement approvals (e.g., any necessary tentative subdivision map and zoning modifications, area plans, subdivision maps and site development permits) are pursued, the EIR will be determined by the County to have adequately addressed the environmental impacts of each such subsequent entitlement and that there would be no significant impact not previously discussed in the EIR. However, no assurance can be given as to these matters, and if new significant impacts are found, it could have an adverse effect on the development of the property within the Community Facilities District.

Environmental Permits

Prior to the approval of the Specific Plan and the tentative subdivision maps for the land encompassing the Community Facilities District and certain nearby developments, the County Board of Supervisors approved the Lake Hodges Segment of the San Diego County Multiple Species Conservation Program Subarea Plan (the "Subarea Plan"). The Subarea Plan includes all of the property within the Community Facilities District. The Subarea Plan establishes a preserve area boundary line around sensitive habitat. The Subarea Plan was later incorporated into the County's Multiple Species Conservation Program. Pursuant to the Implementing Agreement (the "Implementing Agreement"), dated as of March 17, 1998, entered into among the County, the United States Fish and Wildlife Service and the California Department of Fish and Game, the County is authorized to issue "take" authorization pursuant to the federal and State endangered species acts for property within the Subarea Plan for the 85 plant and animal species described in the Implementing Agreement. So long as property owners within the Specific Plan Area do not disturb habitat within the Subarea Plan's preserve area boundary line, the property owners are permitted to disturb sensitive habitat and sensitive species outside the preserve area boundary line. The current development entitlements for the development project within the Community Facilities District have been designed to avoid the preserve areas. As a result, with respect to the 85 species covered by the Implementing Agreement, so long as the development project maintains its current development entitlement footprints outside of the preserve areas, 4S Kelwood will not need to seek any additional permits under either the federal or the State

endangered species acts. However, future listing by federal or State authorities of additional plant or animal species as threatened or endangered could impact the planned development within the Community Facilities District.

4S Kelwood engaged RMA Consultants, Escondido, California to prepare a 4S Habitat Management Plan for the development. The 4S Ranch Habitat Management Plan dated June, 1998 and revised September, 1999 was approved by the County on September 16, 1999. The Habitat Management Plan was prepared in accordance with the mitigation measures identified in the 4S Ranch Specific Plan Environmental Impact Report, as amended and the County of San Diego's conditions of approval for the project's tentative map (TM 5066). This approval applies to approximately 1,612 acres of 4S Ranch that is included in the habitat preserve of the Subarea Plan. Of the approximately 2,888 acres of the 4S Ranch being developed as a planned community, approximately 1,612 acres will be set aside as part of the Multiple Species Conservation Preserve. The acreage consists of two portions of the Ralphs Family Preserve of approximately 1,065 acres and the Specific Plan Preserve of approximately 547 acres. The Multiple Species Conservation Preserve is within the boundaries of the Community Facilities District and is not subject to the levy of the Special Tax.

The development has followed normal permitting requirements for impacts to wetlands and other water courses regulated by the U.S. Army Corps of Engineers and the California Department of Fish and Game. In June 1999, 4S Kelwood obtained a Section 404 Permit from the U.S. Army Corps of Engineers. The time for completing the authorized activities ends on June 22, 2009 and may be extended with the consent of the U.S. Army Corps of Engineers. 4S Kelwood entered into an Agreement regarding Proposed Stream or Lake Alteration in April 1999 for certain road, pedestrian and pipeline crossings and grading along portions of certain stream beds required in connection with the project. (This Agreement is also sometimes referred to as a Section 1603 Permit.) The Agreement with the Department of Fish and Game terminates December 31, 2003 and may be extended for an additional year. The work authorized under that agreement is estimated to be completed by the third quarter of 2003.

Biological Surveys. As part of the Environmental Impact Report, 4S Kelwood developed the 4S Ranch Biological Conveyance Plan implementing the County's Multiple Species Conservation Program Implementing Agreement and the Lake Hodges Subarea Plan. In furtherance of the Biological Conveyance Plan, 4S Kelwood has caused a biological survey and report to be completed for the 4S Ranch development and certain Merchant Builders have caused a biological survey and report to be completed for their respective project and the results are available for public review in the Department of Planning and Land Use Division (Biological Technical Report, County of San Diego). Certain sensitive plant and animal species were observed on site.

See "BONDOWNERS' RISKS – Endangered and Threatened Species." 4S Kelwood believes that the likelihood of a listing of additional species affecting the development of the project is remote at this stage of development. 4S Kelwood has been issued grading permits for a portion of Neighborhood Two (Tract 5216-1) and is in conformance with the approved boundaries of the Multiple Species Conservation Program and has granted the required open space easement to the County of San Diego and the State of California. Furthermore, the development has followed normal permitting requirements for impacts to wetlands and other water courses regulated by the U.S. Army Corps of Engineers and the California Department of Fish and Game.

Development Agreement

4S Kelwood and the County have entered into a public benefit agreement (the "Development Agreement"), dated January 6, 2001 regarding the proposed development. The Development Agreement was recorded on May 24, 2001 as Document No. 2001-03365489. For purposes of the Development Agreement, the proposed development includes the improvement of the proposed development sites for the purposes of construction and otherwise effecting the structure, improvements and facilities comprising the proposed development, including but not limited to grading, the construction of infrastructure and public facilities related to the proposed development (whether located within or outside the project area), the construction of structures and buildings and the installation of landscaping.

Pursuant to the terms of the Development Agreement, 4S Kelwood has the right to develop the proposed development in a manner consistent with the County's approved Specific Plan, and applicable rules, regulations and official policies. The proposed development is expected to be sold over the next eight

years, ending in 2010, to merchant builders and as long as the project is constructed in a manner consistent with the County's existing Land Use Ordinances, the project may be constructed at the rate and in the sequence that 4S Kelwood deems appropriate. Build-out within the Community Facilities District is expected to occur in 2010. Build-out within Improvement Area A (Neighborhood Two) is expected to occur in 2005.

By entering into the Development Agreement, 4S Kelwood obtained a vested right to proceed with the project in accordance with General Plan Amendment GPA 96-001, San Dieguito Community Plan (21) Specific Plan Designation, Specific Plan Amendment SPA 95-001, Zone Reclassification R95-001, Tentative Map TM 5066RPL, Tentative Map TM 5067RPL, Major use Permit Modification P87-036W³ and Modification to Agricultural Preserve No. 60. However, development remains subject to any remaining discretionary approvals required in order to complete the project as contemplated by the foregoing entitlements and subject to changes in County laws, regulations, plans or policies specifically mandated and required by changes in state or federal laws or regulations.

Termination of the Development Agreement by one party due to the default of the other party will not affect a right or duty emanating from County entitlements or approvals on the development project.

The Development Agreement was approved and entered into pursuant to California Government Code Section 65864, *et seq.* (the "Development Agreement Law"). The Development Agreement Law provides that a developer can obtain a vested right to develop its real property pursuant to a validly executed development agreement. One appellate case in California, *Santa Margarita Residents v. San Luis Obispo County Bd. of Supervisors*, has held that development agreements are enforceable under the Development Agreement Law. However, the development agreement in that case did not address vested rights. Consequently, although the Development Agreement purports to provide 4S Kelwood with a vested right to build the Development as currently planned and as described herein, if the Development Agreement were to be challenged in a California court, there can be no assurances that such court would enforce the Development Agreement if the County fails to fulfill its obligations under the Development Agreement or if more restrictive local land use regulations are adopted in the future. Additionally, public entities not bound by the terms of the Development Agreement may impose additional conditions on the Development. See "BONDOWNERS' RISKS – Failure to Develop Properties" and " – Ballot Initiatives and Legislative Measures" herein.

Covenants, Conditions and Restrictions; Homeowner's Association

All of the parcels in Improvement Area A are subject to recorded covenants, conditions and restrictions that provide for a levy of homeowners' association assessments. The assessments are on a basis subordinate to the lien of the Special Taxes.

Development Status and Current Entitlement

Improvement Area A of the Community Facilities District encompasses approximately 140.92 net residential acres which will include approximately 565 single family units, a proposed 23-acre middle school site and a 22-acre community park. Single family detached homes are expected to be offered for sale in Improvement Area A by a number of homebuilders, including K. Hovnanian at 4S, LLC, Fieldstone 4S Area 7, LLC, Standard Pacific, Pulte Homes, Centex Homes and Belle Rive Development Company. At build out, Improvement Area A is estimated to include approximately 565 taxable Detached Units. There are no Affordable Units or commercial acreage in Neighborhood Two.

Special Tax Collections

The maximum Assigned Special Tax on Developed Property authorized for the 2002-03 Fiscal Year in Improvement Area A is \$2,350.17 for a Detached Unit and \$524.75 for an Attached Unit. In addition, the maximum Community Facilities District Special Tax is \$2,070.28 for a Detached Unit and \$915.70 for an Attached Unit. For Fiscal Year 2002-03, no Special Taxes were levied in Improvement Area A.

Property Ownership

Based on the Appraisal, as of October 23, 2002 there were approximately 6 model homes and 14 production homes under construction. As of October 23, 2002, 4S Kelwood owns all but 114 of the 565 lots in Improvement Area A and would be responsible for approximately 87.76% of the estimated Fiscal Year 2003-04 Improvement Area A Special Tax levy if it does not convey any more lots. Assuming completion of sales pursuant to its purchase agreements with the Merchant Builders, Table 1 below sets forth the estimated Special Taxes levied in Fiscal Year 2003-04 in the Community Facilities District. The actual allocation to the Merchant Builders will depend on completion of sales to Merchant Builders and sales by Merchant Builders of completed homes to individual homeowners during the applicable period.

Table 1
Poway Unified School District
Community Facilities District No. 6 (4S Ranch)
Improvement Area A
Estimated Top Owners of Taxable Property
And Allocation of Special Tax Liability
Fiscal Year 2003-04

Current Property Owner⁽¹⁾	Expected Property Owner	Number of Units	Acreage	Aggregate Special Tax	Percent of Tax Obligation⁽²⁾
4S Kelwood	4S Kelwood	227	77.99	\$766,017.78	61.51%
4S Kelwood	K. Hovnanian	37	7.53	73,959.66	5.94
4S Kelwood	Fieldstone 4S Area 7, LLC	65	9.84	96,648.48	7.76
4S Kelwood	Standard Pacific	34	8.23	80,835.06	6.49
4S Kelwood	Pulte Homes	38	7.69	75,531.18	6.07
Centex Homes	Centex Homes	32	5.81	57,065.82	4.58
Belle Rive Development Company	Belle Rive Development Company	<u>82</u>	<u>9.71</u>	<u>95,371.62</u>	<u>7.66</u>
Total		565	126.80	\$1,245,429.60	100.00%

⁽¹⁾ Based on contracts, assuming acquisition by each Merchant Builder as of May 1, 2003. 4S Kelwood has entered in purchase contracts for all except 90 units and is negotiating the sale of the 90 units to two different merchant builders and 4S Kelwood does not intend to construct homes on these lots itself. K. Hovnanian at 4S, LLC, Standard Pacific's, Pulte Homes' and Centex Homes' purchase contracts provide for phased purchases and actual Improvement Area A Special Taxes allocated to 4S Kelwood and each such Merchant Builder will differ from those presented depending on the date of transfer and construction of production homes and sale to homeowners. Completion of the sales to the merchant builders is subject to satisfaction of the terms and conditions of each sales agreement. No assurance can be given that such sales will occur.

⁽²⁾ Total may not add due to rounding.

Source: David Taussig & Associates, Inc.

4S Kelwood and the Merchant Builders

The information about 4S Kelwood, the Merchant Builders and the other owners of land within Improvement Area A of the Community Facilities District contained in this Official Statement has been provided by representatives of 4S Kelwood and the Merchant Builders and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2002 Bonds. However, because ownership of the property is expected to change, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of 4S Kelwood, the Merchant Builders or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

4S Kelwood and the Merchant Builders are not personally liable for payment of the Special Taxes or the 2002 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2002 Bonds are personal obligations or indebtedness of 4S Kelwood, the Merchant Builders or any other landowners in the Community Facilities District.

4S Kelwood. 4S Kelwood General Partnership ("4S Kelwood") is a California general partnership of which the sole managing partner is Kelwood Development Company, LLC, a Delaware limited liability company ("Kelwood Development Company") and 4S Ranch Company 1700, L.P., a California limited partnership ("4S Ranch Company 1700") is a general partner. Kelwood Development Company is wholly owned by Genstar Land Company, LLC, a Delaware limited liability company ("Genstar"), which is wholly owned by Newland-IHP Ventures, LLC, a Delaware limited liability company. Newland-IHP Ventures, LLC was formed by entities related to Newland Communities, LLC, a Delaware limited liability company ("Newland Communities") and Institutional Housing Partners. Newland Communities is a real estate development company which traces its history back 30 years and has developed approximately 40 communities in nine states. Newland Communities is active both as a master-planned community developer and as an advisor to pension funds and other institutional partners on the acquisition and development of residential communities. Newland Communities is headquartered in San Diego, California, and as of September 1, 2002 has development operations in nine states, including California, Oregon, Washington, Arizona, Texas, Florida, Georgia and the Carolinas. In 1999, Newland Communities entered into a partnership with Hunt Realty Corporation, which acquired a substantial interest in Newland Communities. Based in Dallas, Texas, Hunt Realty Corporation is the real estate investment company responsible for real estate acquisition and investment management activities for Hunt Consolidated Inc. Institutional Housing Partners is a real estate venture capital firm formed in 1992 to provide investment and advisory services to institutional investors desiring to invest in single family residential development.

4S Kelwood intends to market property to merchant builders and does not intend to construct residential or commercial/industrial structures. As of November 1, 2002, 4S Kelwood has sold land to merchant builders for approximately 1,198 single family detached dwelling units.

Description of Project. Of the approximately 2,888 gross acres of land encompassing the Community Facilities District, 4S Kelwood owns collectively approximately 1,681 gross acres and has conveyed approximately 185 gross acres to nine merchant builders in Neighborhood One.

Within Neighborhood Two 4S Kelwood has entered into contracts for the sale of approximately 98.6 net residential acres expected to be developed with approximately 475 of the 565 Detached Units proposed for Improvement Area A to K. Hovnanian at 4S, LLC, Fieldstone 4S Area 7, LLC, Standard Pacific, Pulte Home, Centex Homes and Belle Rive Development Company LLC. Belle Rive Development Company closed escrow on 82 lots on September 26, 2002 and Centex Homes closed escrow on 32 lots on October 23, 2002. 4S Kelwood is negotiating contracts for sale of the remaining 90 parcels in Improvement Area A to other merchant builders. Table 2 below sets forth information regarding the projects being developed in Neighborhood Two.

There are approximately 2,071 lots (approximately 181.71 net acres) in Neighborhood Three and approximately 875 lots (approximately 85.09 net acres) in Neighborhood Four which are primarily owned by 4S Kelwood. Neighborhoods One, Three and Four are not within Improvement Area A.

Table 2
Poway Unified School District
Community Facilities District No. 6
Improvement Area A
Property Ownership and Development Status

Name of Landowner/ Developer	Planning Area/ Development Name	Total Number of Units	Units Completed or Under Construction	Net Taxable Acreage	Status of Maps	Status of Development as of October 23, 2002
4S Kelwood	2	24	0	7.13	Tentative Map	Raw land
4S Kelwood	4	66	0	35.29	Tentative Map	Raw land
4S Kelwood	6	73	0	16.51	Final Map	Graded lots – under contract with K. Hovnanian at 4S LLC. Final Map recorded August 21, 2002
4S Kelwood	7	65	0	10.94	Tentative Map	Raw land – under contract with Fieldstone 4S Area 7, LLC
4S Kelwood	8	105	0	28.25	Tentative Map	Raw land – under contract with Standard Pacific
4S Kelwood	10	75	0	16.87	Tentative Map	Raw land – under contract with Pulte Homes
Centex Homes phased purchase from 4S Kelwood	11	75	0	15.12	Final Map	Graded lots – under contract with Centex Homes. Final Map recorded August 21, 2002. 32 purchased as of October 23, 2002. 3 model units and 7 production units under construction.
Belle Rive Development Company	13	<u>82</u>	<u>0</u>	<u>10.79</u>	Final Map	Graded lots – sold to Belle Rive Development Company. Final Map recorded August 21, 2002. 3 model units and 7 production units under construction.
Total		565	0	140.89		

Source: Development Plan from 4S Kelwood.

Status of Permits and Approvals. 4S Kelwood has obtained approvals and permits for grading and for public improvements required for development of portions of Neighborhood Two. Final maps recorded for 230 units in Neighborhood Two on August 21, 2002. *Final maps are projected to be approved for 245 units in Neighborhood Two in December of 2002 and the final 90 units in the second quarter of 2003.*

4S Kelwood has rough graded the portions of the property sold to merchant builders. Backbone infrastructure improvements, including water, sewer, drainage, street improvements, paving and street lights have been constructed to serve the units in Neighborhood One and are under construction in Neighborhood Two. Pursuant to 4S Kelwood's sales agreements with Merchant Builders, 4S Kelwood generally conveys the property to each Merchant Builder in a blue top/finished lot condition with street and utilities constructed. Each Merchant Builder is responsible for completing sidewalks and landscape improvements for the detached and attached single family housing lots acquired by such Merchant Builder.

4S Kelwood entered into an agreement with the Olivenhain Municipal Water District relating to the provision of water service by Olivenhain Municipal Water District to the portion of the property owned by 4S Kelwood in 1997. 4S Ranch Company and 4S Ranch Company 600, L.P. entered into an agreement with the Olivenhain Municipal Water District relating to the provision of water service by Olivenhain Municipal Water District to the portion of the property owned by 4S Ranch Company and 4S Ranch Company 600, L.P. in 1997. 4S Kelwood, 4S Ranch Company and 4S Ranch Company 600, L.P. entered into an agreement for Olivenhain Municipal Water District to provide wastewater and recycled water services to the property within the Community Facilities District in 1999. 4S Kelwood entered into an agreement with the Rancho Santa Fe Fire District with respect to fire protection master plan and fire protection services in 1997.

As of September 30, 2002, 4S Kelwood has expended approximately \$190 million in land acquisition, development, infrastructure and financing costs relating to development of the property within the Community Facilities District, of which approximately \$25 million relates to Improvement Area A. 4S Kelwood estimates that total development and infrastructure costs, including in-tract improvements will aggregate approximately \$350 million, of which approximately \$66 million relates to Improvement Area A.

Major infrastructure which remains to be constructed includes the following: (i) Carmel Valley Road from 4S Ranch to Black Mountain Road; (ii) widening Camino Del Norte at I-15; and (iii) off-site water pipelines and pump station.

4S Kelwood is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A. Such improvements are estimated to be completed by the end of the fourth quarter of 2003.

Plan of Finance. 4S Kelwood is financing its development of the property from unsecured loans and equity contributions from its partners and profits from sales of land to merchant builders. As of September 30, 2002, the unsecured loans from the partners to the project aggregated approximately \$30.6 million and the undistributed capital totaled approximately \$59.3 million. The project has no debt financing secured by the land in the form of a deed of trust. One of the partners in 4S Kelwood, Kelwood Development Company is a second tier wholly owned subsidiary of Newland-IHP Ventures, LLC ("N-IHP"). California Public Employees Retirement Systems (CalPERS) is the primary investor in the entities owning 99.5% of N-IHP.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 565 lots within Improvement Area A, portions of the project may not be developable. While 4S Kelwood has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of 4S Kelwood to provide internal financing in the past, 4S Kelwood has not represented in any way that it will do so in the future.

Development Experience. Newland Communities' historical projects in California include those listed in the following table.

Site Name	City	No. of Units	Type of Development	Role of 4S Kelwood	Time Period of Development
Paseo del Sol	Temecula	3,000	Residential & commercial	Developer	5 years
Bernardo Heights	San Diego	3,500	Residential	Developer	7 years
Rancho Penasquitos	San Diego	12,000	Residential & commercial	Developer	15 years
Whitney Oaks	Sacramento	2,000	Residential	Developer	7 years

Absorption. Development of the property within the Community Facilities District is estimated by 4S Kelwood to occur over the next 8 years and 4S Kelwood has estimated that its sales to merchant builders will conclude in 2008, with merchant builder sales of new homes concluding thereafter.

Development of the property within Improvement Area A is estimated by 4S Kelwood to occur over the next 3 years and 4S Kelwood has estimated that its sales to merchant builders will conclude in 2003, with merchant builder sales of new homes concluding thereafter.

History of Property Tax Payment; Loan Defaults; Bankruptcy. Under the definition of Affiliate set forth below, 4S Kelwood has over 50 Affiliates consisting of various entities that are developing or have been involved in the development of over 50 different projects in 10 different states over a 30 year period. It is likely that any such Affiliates have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. 4S Kelwood does not have actual knowledge that any such Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes. For purposes of this Official Statement the term "Affiliate" means:

- (a) a Person directly or indirectly owning, controlling or holding with power to vote, 5% or more of the outstanding voting securities of such other Person,

- (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote, but 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. "Person" means an individual, a corporation, a partnership, an association, a joint stock company, a limited liability company, a trust, any unincorporated organization or a government or political subdivision thereof.

4S Kelwood has made the following representations:

- except as otherwise described herein, neither it nor to its actual knowledge any of its current Affiliates has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- to the actual knowledge of 4S Kelwood, neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Improvement Area A Special Taxes or the Community Facilities District Special Taxes for which it is responsible,
- 4S Kelwood and its Affiliates are solvent and neither 4S Kelwood nor any of its current Affiliates has ever filed for bankruptcy or been declared bankrupt or has any proceeding pending or to its actual knowledge, threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- to the actual knowledge of 4S Kelwood, no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to 4S Kelwood or an Affiliate having been accomplished) against 4S Kelwood or any Affiliate or, to 4S Kelwood's actual knowledge, threatened, which if successful, would materially adversely affect the ability of 4S Kelwood to complete the development and sale of the property currently owned within the Community Facilities District or to pay Improvement Area A Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

For purposes of this Official Statement the actual knowledge of 4S Kelwood shall mean the actual knowledge of Michael L. Rust and James H. McLennan, Senior Vice President and Chief Financial Officer, Newland Communities.

Newland-IHP Ventures, LLC ("Newland-IHP") acquired Genstar Land Company, LLC ("Genstar") in June, 2000 (the "Genstar Acquisition"). At that time, Genstar owned or had an interest in over 27 land development projects in 7 states. One such property consisted of raw land in Los Angeles County (the "NorthLake Property") owned by NorthLake LLC ("NorthLake LLC"), whose members were Genstar NorthLake LLC ("Genstar NorthLake") and Cook Ranch Associates, a California general partnership ("Cook Ranch"). The NorthLake Property was included within Community Facilities District No. 92-1 ("CFD No. 92-1") established by the Castaic Union School District for which \$19,500,000 in bonds were issued in August 1992. At the time of issuance of the CFD No. 92-1 bonds, Cook Ranch was the sole owner of the property in CFD No. 92-1. Immediately following the Genstar Acquisition, Genstar and Cook Ranch began negotiations whereby Genstar NorthLake would sell and convey its interest in NorthLake LLC to Cook Ranch. During these negotiations the first property tax installment for the 2000-01 tax year for the NorthLake Property became due and was timely paid by NorthLake LLC from funds contributed by Genstar. The negotiations did not proceed as expected and in January, 2001, Cook Ranch filed a lawsuit against NorthLake LLC and Genstar NorthLake. During this period, NorthLake LLC's second property tax installment for the 2000-01 tax year became due and was not paid pending resolution of the litigation. On May 31, 2001, the lawsuit was settled and the parties entered into a settlement agreement pursuant to which

Genstar NorthLake agreed to sell and reconvey all of its interest in NorthLake LLC back to Cook Ranch. The settlement agreement also provided that, at the closing, Genstar NorthLake would fund the penalties and interest due by NorthLake LLC on the delinquent property tax installments. In connection with the June 15, 2001 close of escrow and sale of its interest in NorthLake LLC, Genstar NorthLake provided Cook Ranch with a cashiers check payable to the Los Angeles County Tax Assessor-Collector in the amount of approximately \$104,000 representing payment in full of all penalties and interest accrued to the second property tax installment for 2000-01. Since the closing, neither Newland-IHP, nor Genstar, nor Newland Communities has had any affiliation with NorthLake LLC or Cook Ranch or any direct or indirect interest in the NorthLake Property, including any obligation to pay property taxes or special taxes of CFD No. 92-1. Under the settlement agreement, Cook Ranch, as the sole owner/member of NorthLake LLC, was responsible for the payment of property taxes for the second property tax installment of 2000-01 and thereafter.

Development Activity. Table 3 below summarizes certain information regarding the planned development within Neighborhood Two of the Community Facilities District as of October 23, 2002, the date of the estimated market value set forth in the Appraisal.

Table 3
Poway Unified School District
Community Facilities District No. 6
Improvement Area A
Active or Pending Projects⁽¹⁾
As of October 23, 2002

Merchant Builder⁽²⁾	Project	Total Units	Units Transferred to Merchant Builders
K. Hovnanian at 4S, LLC	Palomino	73	0
Fieldstone 4S Area 7, LLC	Cambridge	65	0 ⁽³⁾
Standard Pacific Corporation	Terreno at 4S Ranch	105	0
Pulte Homes	Avery Lane	75	0
Centex Homes	Canyon Ridge at 4S Ranch	75	32
Belle Rive Development Company	Belle Rive at 4S Ranch	82	82
4S Kelwood	Pending sales	<u>90</u>	<u>0</u>
Total		565	114

(1) See the Appraisal for more information and appraised value.

(2) Completion of the sales to the merchant builders is subject to satisfaction of the terms and conditions of each sales agreement. No assurance can be given that such sales will occur.

(3) Fieldstone 4S Area 7, LLC is also developing property in Neighborhood One. Of 103 units in Neighborhood One, 99 units have been sold to homeowners.

Source: Appraisal.

4S Kelwood is beginning the development of Neighborhood Two and has entered into a contract with Belle Rive Development Company for the sale of land for development of approximately 82 lots. 4S Kelwood has executed the terms of contracts with Centex Homes, K. Hovnanian at 4S, LLC, Pulte Homes and Fieldstone 4S Area 7, LLC and Standard Pacific for the sale of land in Neighborhood Two.

There is no certainty that contracts entered into or under negotiation will be consummated and land transferred from 4S Kelwood to any of the third parties described above.

No Individual Owners. As of October 23, 2002, the date of the estimated market value set forth in the Appraisal, there are no owner-occupied homes within Improvement Area A.

Neighborhood Two – Merchant Builder Sales.

Neighborhood Two will comprise approximately 565 detached residential units, a proposed 23-acre middle school site and a 22-acre community park. As of September 30, 2002, 4S Kelwood has entered sales contracts for approximately 475 of the 565 lots for single family detached homes in Neighborhood Two to seven Merchant Builders of which 82 lots closed on September 26, 2002 and 32 lots closed by October 23, 2002. 4S Kelwood is negotiating with two merchant builders for the sale of land and construction of approximately 90 detached units. There is no certainty that contracts entered into or under negotiation will be consummated and land transferred from 4S Kelwood to any of the third parties described above.

K. Hovnanian at 4S, LLC

K. Hovnanian at 4S, LLC is a California limited liability company. The managing member of K. Hovnanian at 4S, LLC is an affiliate of Hovnanian Enterprises, Inc., a Delaware corporation ("Hovnanian Enterprises"). Hovnanian Enterprises was initially incorporated in 1967 and is one of the nation's largest homebuilders. Headquartered in Red Bank, New Jersey, Hovnanian Enterprises designs, constructs and markets single-family homes, townhomes and condominiums in planned residential communities in, among other locations, California, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Texas and Virginia. Hovnanian Enterprises' homes are marketed and sold under the trade names K. Hovnanian, Washington Homes, Goodman Homes, Matzel & Mumford, Diamond Homes, Westminster Homes, Fortis Homes and Forecast Homes. Hovnanian Enterprises is also one of the nation's largest developers of active adult communities under the name of K. Hovnanian's Four Seasons.

The parent company of K. Hovnanian at 4S, LLC, is subject to the informational requirements of the Securities Exchange Commission Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with Securities and Exchange Commission (the "SEC"). Such filings, particularly Hovnanian Enterprises' Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's website at sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. Hovnanian Enterprises, the parent company of K. Hovnanian at 4S, LLC is actively traded on the NYSE. The trade symbol is HOV.

Hovnanian Enterprises Internet home page is located at khov.com. This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.

Description of Project. K. Hovnanian at 4S, LLC has assumed the contract rights and obligations of an affiliated company, K. Hovnanian Companies of Southern California, Inc., effective in the third quarter of 2002, in order to acquire 73 lots (approximately 16.51 net acres) in Improvement Area A. 37 of the lots are expected to be acquired by December 1, 2002 and 36 lots are, subject to an option to purchase in favor of K. Hovnanian 4S, LLC, expected to be acquired prior to the end of the third quarter of 2003. There are currently vacant lots which are in a partially finished condition. The project is expected to have three model homes ranging from 4,144 to 4,595 square feet under construction during the last quarter of 2002. The project is anticipated to open for sales in the second quarter of 2003, and opening sales prices are currently projected to range from \$620,000 to \$660,000.

The development which constitutes K. Hovnanian at 4S, LLC's project, together with the estimated lot sizes, unit sizes and base sales price range, is set forth below.

Project Name	Minimum Lot Size (Square Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Palomino	7,350	4,144-4,595	\$620,000-\$660,000	73

Status of Permits and Approvals. A final map encompassing the 73 lots was recorded on August 21, 2002. Pursuant to its purchase agreement with K. Hovnanian at 4S, LLC, 4S Kelwood is obligated to deliver partially finished lots to K. Hovnanian at 4S, LLC. As described above, under "– Status of Permits and Approvals," 4S Kelwood is currently completing grading and constructing all backbone public improvements, partially finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A, including the 73 lots under contract to K. Hovnanian at 4S, LLC. K. Hovnanian at 4S, LLC will construct model and production homes. K. Hovnanian at 4S, LLC intends to begin model construction by the fourth quarter of 2002. Home sales are expected to commence in the second quarter of 2003.

Grading and sewer for the lots is in construction by 4S Kelwood, and water, streets, curbs and gutters are required by the purchase agreement to be completed by the end of the first quarter of 2003. Because K. Hovnanian at 4S, LLC will acquire "partially finished lots," K. Hovnanian at 4S, LLC's remaining costs relate primarily to model and production home construction.

Plan of Finance. K. Hovnanian at 4S, LLC is a single purpose entity formed in connection with the project. K. Hovnanian at 4S, LLC intends to finance the acquisition and construction costs through funds provided through its parent company and home sale proceeds. The parent company of K. Hovnanian at 4S, LLC has obtained a revolving line of credit through a number of banks for its financial needs. The line of credit is currently not in default. K. Hovnanian at 4S, LLC anticipates that the primary source of repayment on the revolving line will be through the home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 73 lots within Improvement Area A, portions of the project may not be developable. While Hovnanian Enterprises has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Hovnanian Enterprises to provide internal financing in the past, Hovnanian Enterprises has not represented in any way that it will do so in the future.

Development Experience. Recent projects completed and projects currently under development by Affiliates of K. Hovnanian at 4S, LLC in Southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Dominguez Hills Village	Carson (LA County)	1,094-2,321	\$200,000-\$425,000	574
Four Seasons at Temecula Valley	Murrieta	1,771-2,773	\$269,990-\$411,990	524
The Gables	Ladera Ranch	Approx. 1,600-2,000	Approx. \$300,000-\$400,000	120
Hilltop at Encinitas Ranch	Encinitas	3,130-5,182	\$975,000-\$1,100,000	103
Las Rosas	Rancho Santa Margarita	2,916-3,442	\$400,000-\$500,000	113
Menifee	Menifee	2,375-3,453	\$256,990-\$306,990	306
Park Lane	Irvine	1,164-1,787	\$318,990-\$404,990	190
Riverbend	Mira Loma	2,828-4,209	\$339,586-\$412,130	143
Trail Ridge	Ladera Ranch	2,219-2,461	\$480,000-\$503,000	100
Winchester	Murrieta	2,604-3,699	\$267,990-\$309,490	192

Absorption. K. Hovnanian at 4S, LLC has a projected absorption rate of 15 units per quarter, commencing the second quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. K. Hovnanian at 4S, LLC has made the following representations:

- neither K. Hovnanian at 4S, LLC nor to K. Hovnanian at 4S, LLC's actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither K. Hovnanian at 4S, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area A as described in the Official Statement or to pay the Improvement Area A Special Taxes or the Community Facilities District Special Taxes for which it is responsible,
- K. Hovnanian at 4S, LLC and its Affiliates are solvent and neither K. Hovnanian at 4S, LLC nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt, or has any proceeding pending or to its actual knowledge threatened in which K. Hovnanian at 4S, LLC or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to K. Hovnanian at 4S, LLC or an Affiliate having been accomplished) against K. Hovnanian at 4S, LLC or any Affiliate or, to K. Hovnanian at 4S, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of K. Hovnanian at 4S, LLC to complete the development and sale of the property currently owned within Improvement Area A or to pay Improvement Area A Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area A.

Fieldstone 4S Area 7, LLC

Fieldstone 4S Area 7, LLC is a Delaware limited liability company. The sole asset of Fieldstone 4S Area 7, LLC is its project in the Community Facilities District. The managing member of Fieldstone 4S Area 7, LLC is Fieldstone Communities, Inc., a California corporation ("Fieldstone Communities"), based in Newport Beach, California. Fieldstone Communities is a privately held company. Established in 1986, Fieldstone Communities builds homes in Orange, Riverside, San Bernardino and San Diego Counties in California and in Salt Lake City, Utah. Fieldstone Communities homebuilding segment specializes in the sale and construction of single-family attached and detached housing. Fieldstone Communities' Internet home page is located at fieldstone-homes.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Description of Project. Fieldstone 4S Area 7, LLC has entered into a contract to acquire 65 lots (approximately 10.94 net acres) in Improvement Area A by late 2002 or early 2003. There are currently vacant lots which are in a finished condition. The project is expected to have three model homes ranging from 2,803 to 3,392 square feet under construction during the first quarter of 2003. The project is anticipated to open in the first quarter of 2003 and sales prices are estimated to range from \$476,000 to \$528,000.

The development which constitutes Fieldstone 4S Area 7, LLC's project, together with the estimated lot sizes, unit sizes and base sales price range, is set forth below.

Project Name	Minimum Lot Size (Square Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Cambridge	6,300	2,803-3,392	\$476,000-\$528,000	65

In addition to the project in Neighborhood Two, another entity of which Fieldstone Communities is the managing member is developing a project in Neighborhood One. That entity acquired 103 lots in Planning Area 18 of Neighborhood One for its project named Homestead on approximately 16 net acres in December 1999.

Status of Permits and Approvals. Tentative maps encompassing the 65 lots have been recorded. Final maps encompassing the 65 lots are being processed by 4S Kelwood and are expected to be recorded prior to acquisition by Fieldstone 4S Area 7, LLC. Pursuant to its purchase agreement with Fieldstone 4S Area 7, LLC, 4S Kelwood is obligated to deliver finished lots to Fieldstone 4S Area 7, LLC. As described above, under "4S Kelwood and the Merchant Builders – Status of Permits and Approvals," 4S Kelwood is currently completing grading and construction of all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A, including the 65 lots under contract to Fieldstone 4S Area 7, LLC. Fieldstone 4S Area 7, LLC will construct model and production homes. Fieldstone 4S Area 7, LLC intends to begin model construction by February 2003. Home sales are expected to commence in the first quarter of 2003.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the first quarter of 2003. Because Fieldstone 4S Area 7, LLC acquired "finished lots," Fieldstone 4S Area 7, LLC's remaining costs relate primarily to model and production home construction.

Plan of Finance. Fieldstone 4S Area 7, LLC expects to finance the construction of housing units through internal resources of its managing member and home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 65 lots within Improvement Area A, portions of the project may not be developable. While Fieldstone Communities has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Fieldstone Communities to provide internal financing in the past, Fieldstone 4S Area 7, LLC has not represented in any way that it will do so in the future.

Development Experience. Fieldstone Communities' homebuilding segment, together with its subsidiaries, specializes in the sale and construction of single-family attached and detached homes throughout major metropolitan markets in Orange, Riverside, San Bernardino and San Diego Counties in California. Fieldstone Communities' predecessor began home building in 1986 with a single tract of land in Orange County, California. Through its three homebuilding divisions, Fieldstone Communities delivered 609 homes in 1999, 666 homes in 2000, 723 homes in 2001 and anticipates closing approximately 780 homes in 2002. Recent projects under development by Fieldstone Communities in southern California include the following.

Site Name	Location	Unit Size (Square Feet)	Proposed Base Prices	Number of Units
Homestead	Rancho Bernardo (4S)	2,860 - 3,300	\$490,000 - \$550,000	103
Del Sol	Oceanside	2,648 - 3,516	\$368,000 - \$410,000	86
Somerton	Oceanside	2,254 - 2,658	\$344,000 - \$368,000	80
Mission Terrace	Oceanside	2,483 - 3,103	\$354,000 - \$391,000	100
Bridgepark	Chula Vista	2,564 - 2,950	\$365,000 - \$390,000	93

Absorption. Fieldstone Communities has a projected absorption rate of approximately 16 units per quarter, commencing the first quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. Fieldstone 4S Area 7, LLC has made the following representations;

- neither Fieldstone 4S Area 7, LLC nor to Fieldstone 4S Area 7, LLC' actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither Fieldstone 4S Area 7, LLC nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area A or in the Community Facilities District as described in the Official Statement or to pay the Improvement Area A Special Taxes or Community Facilities District special Taxes for which it is responsible,
- Fieldstone 4S Area 7, LLC and its Affiliates are solvent and neither Fieldstone 4S Area 7, LLC nor any of its Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or to its actual knowledge, threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Fieldstone 4S Area 7, LLC or an Affiliate having been accomplished) against Fieldstone 4S Area 7, LLC or any Affiliate or, to Fieldstone 4S Area 7, LLC' actual knowledge, threatened, which if successful, would materially adversely affect the ability of Fieldstone 4S Area 7, LLC to complete the development and sale of the property currently owned within the Community Facilities District or Improvement Area A or to pay Improvement Area A Special Taxes, Community Facilities District Special Taxes, or *ad valorem* tax obligations when due on its property within Improvement Area A or the Community Facilities District.

Standard Pacific Corp.

Standard Pacific Corp., a Delaware corporation ("Standard Pacific") was founded in 1966. Headquartered in Newport Beach, California, Standard Pacific, one of the nation's largest homebuilders, has built homes for more than 51,000 families during its 36-year history. Standard Pacific constructs homes within a wide range of price and sizes targeting a broad range of home buyers. Standard Pacific operates in some of the strongest housing markets in the country with operations in major metropolitan areas in California, Texas, Arizona, Colorado, Florida and the Carolinas. Standard Pacific provides mortgage financing and title services to its home buyers through its subsidiaries and joint ventures, Family Lending Services, SPH Mortgage, WRT Financial, Westfield Home Mortgage, Universal Land Title of South Florida and SPH Title.

Standard Pacific is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly Standard Pacific's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's website at sec.gov. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. Standard Pacific is listed on the NYSE (trading symbol "SPF"). All documents subsequently filed by Standard Pacific pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

Standard Pacific's website is standardpacifichomes.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

Description of Project. Standard Pacific has entered into a purchase contract with 4S Kelwood for 105 lots (approximately 28.25 net acres) in Improvement Area A. 34 of the lots are expected to be acquired

by late 2002 or early 2003, 37 lots are expected to be acquired in the fourth quarter of 2003 and 34 lots are expected to be acquired in the fourth quarter of 2004. There are currently vacant lots which are in a finished condition. The project is expected to have four model homes ranging from 3,175 to 3,990 square feet under construction during the first quarter of 2003. The project is anticipated to open in the second quarter of 2003 and sales prices are estimated to range from \$565,000 to \$610,000.

The development which constitutes Standard Pacific's project, together with the estimated lot sizes, unit sizes and base sales price range is set forth below.

Project Name	Minimum Lot Size (Square Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Terreno at 4S Ranch	8,125	3,175-3,800	\$565,000-\$610,000	105

Status of Permits and Approvals. The 105 lots are encompassed within a tentative map. A final map encompassing 34 of the 105 lots is expected to be recorded in the fourth quarter of 2002, and final maps encompassing the remaining 71 lots are expected to be recorded prior to the expected acquisition dates. Pursuant to its purchase agreement with Standard Pacific, 4S Kelwood is obligated to deliver finished lots to Standard Pacific. As described above, under "– Status of Permits and Approvals," 4S Kelwood is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A. Standard Pacific will construct model and production homes. Standard Pacific intends to begin model construction by the first quarter of 2003. Home sales are expected to commence in the first quarter of 2003.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the second quarter of 2003. Because Standard Pacific will acquire "finished lots," Standard Pacific's remaining costs relate primarily to model and production home construction.

Plan of Finance. Standard Pacific expects to finance the construction of housing units through internal resources and home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of Standard Pacific's expected development within Improvement Area A, portions of the project may not be developable. While Standard Pacific has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Standard Pacific to provide internal financing in the past, Standard Pacific has not represented in any way that it will do so in the future.

Development Experience. Standard Pacific, together with its subsidiaries, operates primarily as a geographically diversified builder of single-family homes throughout major metropolitan markets in California, Texas, Arizona Colorado, Florida and the Carolinas. Standard Pacific's predecessor began home building in 1966 with a single tract of land in Orange County, California. Through its eight homebuilding divisions, Standard Pacific delivered 3,472 homes in 1999, 3,871 homes in 2000, 4,311 homes in 2001 and anticipates closing approximately 6,000 homes in 2002. Recent projects under development by Standard Pacific in southern California include the following.

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
Sansonnet	San Diego	183	\$550,000- 700,000	2,700-3,875	3-5
Cedar Crossing	San Marcos	93	\$350,000- 400,000	1,700-2,600	3-4
Blossom Ridge	Chula Vista	95	\$270,000- 300,000	1,885-2,340	3-4
Rose Creek	Chula Vista	73	\$250,000- 270,000	1,500,2000	3-4
Shorepointe	Carlsbad	146	\$425,000- 500,000	1,800-2,890	3-5
Maravu	Encinitas	43	\$700,000- 800,000	3,200-4,500	3-5

Absorption. Standard Pacific's development has a projected absorption rate of approximately 15 units per quarter, commencing the second quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. Standard Pacific has made the following representations;

- neither Standard Pacific nor to Standard Pacific's actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither Standard Pacific nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area A as described in the Official Statement or to pay the Improvement Area A Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- Standard Pacific and its Affiliates are solvent and neither Standard Pacific nor any of its Affiliates has ever filed bankruptcy or been declared bankrupt or has any proceeding pending or threatened in which it or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Standard Pacific or an Affiliate having been accomplished) against Standard Pacific or any Affiliate or, to Standard Pacific's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Standard Pacific to complete the acquisition and development of the property expected to be owned within Improvement Area A or to pay Improvement Area A Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area A.

Pulte Home Corporation

Pulte Home Corporation ("Pulte Homes"), a subsidiary of Pulte Diversified Companies, Inc., which is a subsidiary of Pulte Homes, Inc. ("Pulte"), a publicly traded holding company listed on the NYSE under the symbol "PHM" and headquartered in West Bloomfield, Michigan ("Pulte"). Pulte Homes has entered into a contract with 4S Kelwood for the purchase of 75 lots. The first phase is expected to transfer by the end of 2002 or early 2003.

Pulte is the parent corporation of companies with operations in two primary segments: homebuilding and financial services. Pulte Homes was founded in 1956 and is the nation's largest single-family homebuilder. Pulte's homebuilding segment is focused on entry-level, first-time and second-time move up buyers with operations in 42 markets located in the United States, as well as Puerto Rico, Mexico and Argentina. Pulte's financial services segment consists primarily of Pulte Mortgage Corporation ("PMC"), a full service mortgage bank, providing financing to Pulte homebuyers and to the general public. PMC operates in substantially the same markets as Pulte Home Corporation. In Mexico, PMC has utilized its extensive financial services expertise to assist in the formation of SuCasita, one of Mexico's first mortgage banks.

Pulte is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly Pulte's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such files can also be accessed over the Internet at the SEC's website at sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005. Pulte, is actively traded on the NYSE. The trade symbol is PHM.

Pulte Homes' Internet home page is located at pulte.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Description of Project. Pulte Homes has entered into a purchase contract for 75 lots (approximately 16.87 net acres) in Improvement Area A. 38 of the lots are expected to be acquired by late 2002 or early 2003 and 37 of the lots are expected to be acquired in the third quarter of 2003. The project is expected to have three model homes ranging from 3,390 to 3,843 square feet under construction during the first and/or second quarter of 2003. The project is anticipated to open in the third quarter of 2003 and sales prices are estimated to range from \$565,000 to \$600,000.

The development which constitutes Pulte Homes' project, together with the estimated lot sizes, unit sizes and base sales price range, is set forth below.

Project Name	Minimum Lot Size (Square Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Avery Lane	6,300	3,390-3,843	\$565,000-\$600,000	75

Status of Permits and Approvals. A final map encompassing the 75 lots is expected to be recorded by 4S Kelwood in the fourth quarter of 2002. Pursuant to its purchase agreement with Pulte Homes, 4S Kelwood is obligated to deliver finished lots to Pulte Homes. As described above, under " - Status of Permits and Approvals," 4S Kelwood is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A, including the 75 lots under contract to Pulte Homes. Pulte Homes will construct model and production homes. Pulte Homes intends to begin model construction by January of 2003. Home sales are expected to commence in the second quarter of 2003.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the first quarter of 2003. Because Pulte Homes will acquire "finished lots," Pulte Homes' remaining costs relate primarily to model and production home construction.

Plan of Finance. The parent company of Pulte Homes has obtained a revolving line of credit through a group of banks to finance the project. The loan is currently not in default. Interest is paid based on the average outstanding principal balance. Pulte Homes anticipates that the primary source of repayment on the revolving line will be through the home sales.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 75 lots within Improvement Area A, portions of the project may not be developable. While Pulte has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Pulte to provide internal financing in the past, Pulte Homes has not represented in any way that Pulte will do so in the future.

Development Experience. In fiscal year ending 2001, Pulte Homes delivered homes to 385 families in California. Recent projects under development or management by Pulte Homes and its Affiliates in southern California include the following:

Project Name	City	No. of Lots	Type of Development	Role of Project Manager	Time Period of Development
Yorba Linda Heights	Yorba Linda	253	Single Family Detached Homes	Project Manager	Current - House closings in 2002
Diamond Hills	Diamond Bar	127	Single Family Detached Homes	Project Manager	Current - House closings in 2001
Serrano Heights	Orange	139	Single Family Detached Homes	Project Manager	Current - House closings in 2002
Quail Hill	Irvine	69	Single Family Detached Homes	Project Manager	Current - House closings in 2002
San Elijo Hills	San Marcos	159	Single Family Detached Homes	Project Manager	Current - House closings in 2001
Silverhawk II	Temecula	374	Single Family Detached Homes	Project Manager	Current - House closings in 2002
Triple M	Corona	94	Single Family Detached Homes	Project Manager	Current - House closings in 2002
Silverhawk I	Temecula	374	Single Family Detached Homes	Project Manager	Closed
Shorepoint	Buena Park	66	Single Family Detached Homes	Project Manager	Closed

Absorption. Pulte Homes has a projected absorption rate of 12 units per quarter, commencing the third quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. It is likely that Pulte Homes and/or its Affiliates have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. Pulte Homes does not have actual knowledge that it or any such Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes.

Pulte Homes has made the following representations:

- except as otherwise described herein, to Pulte Homes's actual knowledge neither Pulte Homes nor any of Pulte Homes's current Affiliates has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- to Pulte Homes's actual knowledge, neither Pulte Homes nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in Improvement Area A as described in the Official Statement or to pay the Improvement Area A Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- Pulte Homes and its Affiliates are solvent and neither Pulte Homes nor any of its current Affiliates has ever filed for bankruptcy or been declared bankrupt or has any proceeding pending or to its actual knowledge, threatened in which Pulte Homes or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- to the actual knowledge of Pulte Homes, no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending

(with service of process to Pulte Homes or an Affiliate having been accomplished) against Pulte Homes or any Affiliate or, to Pulte Homes's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Pulte Homes to complete the development and sale of the property currently owned within Improvement Area A or to pay special taxes or *ad valorem* tax obligations when due on its property within Improvement Area A.

For purposes of this Official Statement the actual knowledge of Pulte Homes shall mean the actual knowledge of Darren Warren, Director of Planning and Scott Pasternak, Director of Finance of Pulte Homes.

Centex Homes

Centex Homes is a Nevada general partnership ("Centex Homes"). Centex Homes buys and develops lots and land and builds single-family detached homes, townhomes, and low-rise condominiums, which are sold to both first-time and move-up buyers. Recently, Centex Homes entered the resort and second home market under the name of Marquis Homes. Centex Homes consistently ranks among the five largest U.S. homebuilders and is the only company to rank among the nation's top 10 homebuilders for each of the past 33 years according to the Professional Builder magazine. As of March 31, 2002, Centex Homes had 474 communities in 88 markets in 23 states and Washington D.C. In fiscal year 2002, homes built by Centex Homes ranged in price from approximately \$63,000 to about \$2.2 million, with an average price of around \$214,000. Centex Homes is a subsidiary of Centex Corporation.

The parent company of Centex, Centex Corporation is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such files, particularly Centex Corporation's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such files can also be accessed over the Internet at the SEC's website at sec.gov. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. Centex Corporation is traded on the NYSE under the stock ticker symbol "CTX." Copies of Centex Corporation's statements prepared in accordance with statutory accounting standards are available from Investor Relations Department of Centex Corporation. The address of the Investor Relations Department of Centex Corporation administrative offices is 2728 North Harwood, Dallas, Texas, 75201-1516. Financial information about Centex Corporation is included in documents filed with the SEC, particularly in each entity's Annual Report on Form 10-K and each entity's most recent quarterly Report on Form 10-Q. All documents subsequently filed by Centex Corporation pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

Centex Homes's website is centexhomes.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

Description of Project. Centex Homes has entered into a purchase contract for 75 lots (approximately 15.12 net acres) in Improvement Area A. 32 of the lots were acquired on October 23, 2002 and 43 lots are expected to be acquired in the second or third quarter of 2003. There are currently vacant lots which are in a finished condition. The project is expected to have three model homes ranging from 3,172 to 3,750 square feet under construction during the first quarter of 2003. The project is anticipated to open in the third quarter of 2003 and sales prices are estimated to range from \$511,900 to \$559,900.

The development which constitutes Centex Homes's project, together with the estimated lot sizes, unit sizes and base sales price range, is set forth below.

Project Name	Minimum Lot Size (Square Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Canyon Ridge at 4S Ranch	6,300	3,172-3,750	\$511,900-\$559,900	75

Status of Permits and Approvals. The lots are purchased in a finished condition. Permits and approvals were processed by 4S Kelwood. A Final Subdivision Map No. 14431, which includes the 75 lots acquired, or to be acquired, by Centex Homes has been recorded. Pursuant to its purchase agreement with 4S Kelwood, 4S Kelwood is obligated to deliver finished lots to Centex Homes. As described above, under "– Status of Permits and Approvals," 4S Kelwood is currently completing grading and construction of all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A. Centex Homes will construct model and production homes. Centex Homes intends to begin model and production home construction by the end of the fourth quarter of 2002.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2003. Because Centex Homes acquired "finished lots," Centex Homes remaining costs relate primarily to model and production home construction as well as the purchase of the 43 lots which is expected in the summer of 2003.

Plan of Finance. Centex Homes intends to finance the entire development through internal equity contributions and home sales proceeds.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the 75 lots within Improvement Area A, portions of the project may not be developable. While Centex Homes has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Centex Homes to provide internal financing in the past, Centex Homes has not represented in any way that it will do so in the future.

Development Experience. Centex Homes has homebuilding operations in the south central, southeast, mid-Atlantic, west coast, midwest and mountain state regions of the country. Centex Homes buys and develops lots and land, and builds and sells single-family detached homes, townhomes and low-rise condominiums to first-time and move-up buyers. During fiscal year 2002, Centex Homes completed 22,960 homes nation-wide, including 367 homes in southern California's San Diego division. Centex Homes anticipates completing approximately 397 homes in San Diego in fiscal year 2003.

Recent single-family developments completed or under development by the San Diego division of Centex Homes include the following:

Development	Location	Number of Homes
Lakeview I, II & III	Spring Valley	414
4S Ranch	Rancho Bernardo	75
Silver Crest	San Marcos	130
Remington Hills I & II	San Ysidro	202
Douglas Crossing	Oceanside	179
Montefaro (luxury condos)	La Jolla	48
Saddle Ridge	Carlsbad	26
Haciendas Sur	Rancho Santa Fe	50
Seasons	Chula Vista	169

In Fiscal Year 2003 (April 1, 2002 to March 31, 2003), Centex Homes's San Diego division forecasts 397 home sales and gross revenues of \$180,000,000. The San Diego division has 90 employees and is currently operating in 12 active neighborhoods in San Diego County.

Absorption. Centex Homes has a projected absorption rate generally ranging from 8 to 12 units per quarter, with the final units in the third quarter of 2004.

History of Property Tax Payments; Loan Defaults; Bankruptcy. Centex Homes makes the following representations:

- neither Centex Homes nor to Centex Homes's actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any California *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither Centex Homes nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or any of its other projects in California which default would in any way materially and adversely affect its ability to develop its property in Improvement Area A as described in the Official Statement or to pay the Improvement Area A Special Taxes or Community Facilities District Special Taxes for which it is responsible,
- Centex Homes is solvent and no proceedings are pending in California or, to the actual knowledge of Centex Homes threatened in which Centex Homes may be adjudicated as bankrupt or become the debtor in a bankruptcy proceeding, or discharged from all of its debts or obligations, or granted an extension of time to pay its debts or a reorganization or readjustment of its debts,
- there is no litigation or administrative proceeding of any nature in which Centex Homes has been served, or to its knowledge, is pending or threatened, which if successful, would materially adversely affect the ability of Centex Homes to complete the development and sale of the property it currently owns within Improvement Area A or to pay the Improvement Area A Special Taxes, the Community Facilities District Special Taxes or ordinary *ad valorem* property tax obligations when due on its property within Improvement Area A, or which challenges or questions the validity or enforceability of the 2002 Bonds, the Resolution of Issuance or the Bond Purchase Contract.

In 1994 Centex Corp. began investing in Vista Properties, Inc., a Dallas-based land development company that controlled substantial real estate assets through a general partnership called Vista Partners, which was in financial difficulty. Ultimately, the acquisition and reorganization of Vista Properties and Vista Partners by Centex Corp. was accomplished according to a pre-packaged bankruptcy plan that was approved by the U.S. Bankruptcy Court for the District of Delaware in 1995. As reorganized, Vista Properties changed its name to Centex Real Estate Corporation, and Vista Partners changed its name to Centex Homes. Over time, essentially all of the management of Vista Properties and Vista Partners was replaced by the management of the former homebuilding subsidiary of Centex Corp., and since the reorganization Centex Real Estate Corporation and Centex Homes have been profitable.

Belle Rive Development Company LLC

Belle Rive Development Company LLC is a California limited liability company ("Belle Rive Development Company"). The managing member of Belle Rive Development Company is Buie Belle Rive LLC, a California limited liability company, the manager of which is Buie Communities LLC, a California limited liability company ("Buie Communities"). Buie Communities is a broad-based development company. Since 1983, Buie Communities has acquired, master-planned and developed property for more than 10,000 residential units and numerous income properties in San Diego, Orange and Riverside counties and has answered the needs of first time, move-up and luxury homebuyers. Buie related entities have developed or have in planning over one million square feet of income-producing properties including shopping centers, office buildings, apartments, industrial buildings and movie theaters. Buie Communities' Internet home page is located at buiecommunities.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Description of Project. Belle Rive Development Company acquired 82 lots (approximately 10.79 net acres) in Improvement Area A on September 26, 2002. There are currently vacant lots which are in a finished condition. The project is expected to have three model homes ranging from 2,264 to 3,047 square feet under construction during the first quarter of 2003. The project is anticipated to open in the first quarter of 2003 and sales prices are estimated to range from \$430,000 to \$470,000.

The development which constitutes Belle Rive Development Company's project, together with the estimated lot sizes, unit sizes and base sales price range, is set forth below.

Project Name	Minimum Lot Size (Square. Feet)	Estimated Unit Size (Square Feet)	Estimated Base Sales Price Range	Total Units
Belle Rive at 4S Ranch	4,500	2,264-3,047	\$430,000-\$470,000	82

Status of Permits and Approvals. The 82 lots are encompassed within a final map which was recorded on August 21, 2002. Pursuant to its purchase agreement with Belle Rive Development Company, 4S Kelwood is obligated to deliver finished lots to Belle Rive Development Company. As described above, under "– Status of Permits and Approvals," 4S Kelwood is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single housing lots within Improvement Area A. Belle Rive Development Company will construct model and production homes. Belle Rive Development Company intends to begin model construction by the fourth quarter of 2002. Home sales are expected to commence in the first quarter of 2003.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of March 2003. Because Belle Rive Development Company will acquire "finished lots," Belle Rive Development Company's remaining costs relate primarily to model and production home construction.

Plan of Finance. Belle Rive Development Company financed purchase of the land through contributions from its members and expects to finance the construction of housing units through a construction loan with First Bank & Trust, a California corporation and land sales revenues.

If and to the extent that loans and land sales revenues are inadequate to pay the costs to complete the planned development of Belle Rive Development Company's expected development within Improvement Area A, portions of the project may not be developable. While members have made contributions and First Bank & Trust has made loans for the models and initial phase of construction, there can be no assurance whatsoever that Belle Rive Development Company will qualify for future draws under the loan agreement; and there is no legal obligation of any kind to Bondowners for members to make any contributions in the future or for Belle Rive Development Company to draw on such loans. Other than pointing out the willingness of members to provide contributions or Belle Rive Development Company to obtain loans in the past, Belle Rive Development Company has not represented in any way that either will do so in the future.

Development Experience. The managing member of Belle Rive Development Company, Buie Communities together with its subsidiaries, operates primarily as a geographically diversified builder of single-family homes throughout southern California. Buie Communities began home building in 1983 with a single tract of land in San Diego County, California. Buie Communities and its Affiliates, delivered 141 homes in 1999, 331 homes in 2000, 277 homes in 2001 and anticipate closing approximately 100 homes in 2002. Recent projects under development by Buie Communities or its Affiliates in southern California include the following:

Site Name	City	No. of Units	Proposed Base Prices	Square Feet	Bedrooms
Altamina	Chula Vista	68	\$340,000-\$490,000	2,286-2,616	3-5
Marianna	Temecula	92	\$317,000-\$355,000	2,596-3,255	4

Absorption. Belle Rive Development Company's development has a projected absorption rate of 15 units per quarter, commencing the first quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. Belle Rive Development Company has made the following representations;

- Except as described below, neither Belle Rive Development Company nor to Belle Rive Development Company's actual knowledge any of its current Affiliates (as defined above) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,

- neither Belle Rive Development Company nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in Improvement Area A or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in Improvement Area A as described in the Official Statement or to pay the Improvement Area A Special Taxes or Community Facilities District Special Taxes for which it is responsible,

- Belle Rive Development Company and its Affiliates are solvent and neither Belle Rive Development Company nor any of its current Affiliates has ever filed bankruptcy or been declared bankrupt, or has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,

- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Belle Rive Development Company or an Affiliate having been accomplished) against Belle Rive Development Company or any Affiliate or, to Belle Rive Development Company's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Belle Rive Development Company to complete the acquisition and development of the property expected to be owned within Improvement Area A or to pay Improvement Area A Special Taxes, Community Facilities District Special Taxes or *ad valorem* tax obligations when due on its property within Improvement Area A.

Appraised Property Values

The purpose of the Appraisal was to prepare a complete appraisal of the taxable properties within Improvement Area A. The taxable properties include the model and production homes under construction, and vacant residential land. In Improvement Area A, the taxable properties include 8 separate tracts which will contain a total of approximately 565 Detached Units, of which as of October 23, 2002 there were approximately 6 models under construction, 14 production units under construction and vacant lots or partially graded acreage for the remaining units. The Appraisal estimates the market value of each tract in Improvement Area A.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the taxable property in Improvement Area A as of October 23, 2002, to be \$72,820,000. The market value includes the value of extensive grading and infrastructure improvements. 20 homes, either as models or production units, are under construction in Improvement Area A.

The Appraisal estimated the value of the property in Improvement Area A as "finished lots," that is, the lots have had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, etc.) Up to the stage of pulling building permits (which, as described in "Property Ownership" above, is not yet the condition of the property), less the remaining cost to 4S Kelwood and Merchant Builders to achieve finished lots (based on the status of the development process as of October 23, 2002). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Improvement Area A Special Taxes and the Community Facilities District Special Taxes.

The Appraiser used a sales comparison approach, in which listings and sales of similar bulk residential properties in the general area are analyzed in order to derive an indication of the most probable sales price of the property being appraised. The estimate of value for the property in Improvement Area A was achieved using the sales price of comparable bulk residential lots in the area that were listed or had sold within the prior 24 months.

The bulk ownership in Improvement Area A is valued by means of a discounted cash flow analysis. First, the land values of each of the 7 residential sites are estimated, as if in a finished condition. Then, an absorption or rate of sell-off of the land is estimated. Then, the total costs and fees are estimated to get all of the land to the finished condition from the existing raw or partially graded condition. Lastly, an appropriate discount rate is estimated, and the estimated cash flows are discounted to a present value indication.

Subject to these assumptions and limiting conditions, as of October 23, 2002, the Appraiser estimated that the market value of the property within Improvement Area A (subject to the lien of the Improvement Area A Special Taxes and the Community Facilities District Special Taxes), including vacant residential land, was as follows:

Merchant Builder/ Developer	Tract Name	Market Value
Centex Homes	Canyon Ridge at 4S Ranch	\$6,640,000
Belle Rive Development Company	Belle Rive at 4S Ranch	13,530,000
4S Kelwood	Remaining Land in Neighborhood Two	<u>52,650,000</u>
Total		\$72,820,000

The School District and the Community Facilities District make no representation as to the accuracy or completeness of the Appraisal. See APPENDIX C hereto for more information relating to the Appraisal.

The \$72,820,000 market value reported in the Appraisal results in an estimated value-to-lien ratios of 4.04 to 1 with respect to Improvement Area A calculated with respect to certain direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2002 Bonds; *provided, however, the value to lien does not include the \$25,000,000 of bonds issued by the Community Facilities District on October 10, 2002.* When homes are developed, such property will be subject to the levy of Community Facilities District Special Taxes and additional bonds of the Community Facilities District may be issued. Because sufficient development has occurred in Neighborhood One assuming no material delinquencies to support debt service on the \$25,000,000 aggregate principal amount of the Community Facilities District 2002 Bonds and additional bonds will be issued in the future by the Community Facilities District, it is not possible to establish a lien of the Community Facilities District bonds on the property within Improvement Area A. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate value. A subsequent series of bonds for School Facilities by the Community Facilities District is estimated to be issued in the First quarter of 2005. See "SECURITY FOR THE 2002 BONDS – Rates and Methods – *Improvement Area A Rates and Methods,*" and "– *Improvement Area A Rates and Methods,*" "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – 4S Kelwood and the Merchant Builders," "Direct and Overlapping Debt" and BONDOWNERS' RISKS – Appraised Values" herein and APPENDIX C – "Summary Appraisal Report" appended hereto for further information on the Appraisal, for limiting conditions relating to the Appraisal and for information relating to overlapping indebtedness.

Estimated Special Tax Allocation

For Fiscal Year 2003-04, the Special Tax is expected to be levied only on Undeveloped Property, i.e., assessor's parcels for which building permits for new construction were not issued on or before January 1, 2003, some of which Undeveloped Property will have construction commenced and completed subsequent to January 1, 2003. Based on the Assessor's Roll for Fiscal Year 2002-03 and information provided by 4S Kelwood, the Special Tax Consultant estimated that 4S Kelwood and the Merchant Builders owned in the aggregate all of the approximately 565 lots in Improvement Area A. Based on the foregoing allocations, 4S Kelwood and the Merchant Builders are expected to be responsible for approximately 100% of the Fiscal Year 2003-04 Special Tax levy. However, such percentage will decline as homes are constructed and sales occur during 2003 and 2004 and as individual homeowners acquire such homes.

A portion of the Developed Property levy will relate to homes completed or under construction and owned by Merchant Builders. At this time, the Community Facilities District cannot estimate the portion of the Fiscal Year 2003-04 Special Tax levy for which 4S Kelwood or the Merchant Builders will be responsible. As a result, in determining the investment quality of the 2002 Bonds, Bondowners should assume that a substantial portion of the Special Taxes in Improvement Area A will be paid by 4S Kelwood and the Merchant Builders until such time as the parcels are transferred to individual owners. The

Community Facilities District is expected to levy Improvement Area A Special Taxes on Undeveloped Property in order to pay debt service on the 2002 Bonds or to replenish the Reserve Fund.

Direct and Overlapping Debt

Table 4 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within Improvement Area A prepared by California Municipal Statistics, Inc. and dated October 30, 2002 (the "Debt Report"). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District and the Community Facilities District expects to issue additional debt secured by Community Facilities District Special Taxes on developed property in the future. See " – Overlapping Assessment and Maintenance Districts" below.

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

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

Table 4
Poway Unified School District
Community Facilities District No. 6
Improvement Area A

2002-03 Local Secured Assessed Valuation: \$2,382,415

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>
San Diego County Water Authority	0.001 %	\$ 32
Metropolitan Water District	0.0002	1,116
Poway Unified School District Community Facilities District No. 6	11.983	2,995,750
Poway Unified School District Community Facilities District No. 6, I.A. A	100.	- ⁽¹⁾
Olivenhain Municipal Water District Assessment District No. 96-1	0.026	<u>5,487</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$3,002,385
 OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	0.001 %	\$ 4,992
San Diego County Pension Obligations	0.001	2,441
San Diego County Superintendent of Schools Obligations	0.001	21
Palomar Community College District General Fund Obligations	0.005	<u>487</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 7,941
 COMBINED TOTAL DEBT		 \$3,010,326 ⁽²⁾

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

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

Ratios to 2002-03 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	126.02%
Combined Total Debt	126.36%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

Table 5 below sets forth estimated Fiscal Year 2003-04 overall tax rates projected to be applicable to a Detached Unit in Improvement Area A assuming issuance of bonds by the Community Facilities District with respect to Improvement Area A and includes the levy of the Community Facilities District Special Taxes. Table 5 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 5
Poway Unified School District
Community Facilities District No. 6 (4S Ranch)
Improvement Area A
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit with 2,264 Building Square Feet)

<u>Assessed Valuation and Property Taxes</u>	<u>Percent of</u>	<u>Projected</u>
	<u>Total AV</u>	<u>Amount</u>
Estimated Sales Price	\$430,000	
Homeowner's Exemption	<u>(7,000)</u>	
Assessed Value	\$423,000	
<i>AD VALOREM</i> PROPERTY TAXES		
General Purposes	1.00000%	\$4,230.00
County Water Authority Debt Service	0.00075%	3.17
Metropolitan Water District Debt Service	<u>0.00670%</u>	<u>28.34</u>
Total <i>Ad Valorem</i> Property Taxes	1.00745%	\$4,261.51
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES ⁽¹⁾		
Poway Unified School District CFD No. 6		\$2,070.28
Poway Unified School District Improvement Area A of CFD No. 6		1,014.96
Fire District Special Tax		12.50
County Service Area No. 83		88.06
Olivenhain Sewer Service Charge		480.00
Olivenhain Assessment District No. 96-1		78.57
County Mosquito and Rat Control		2.28
Metropolitan Water Standby		11.50
CWA Water Availability Charge		<u>10.00</u>
PROJECTED TOTAL PROPERTY TAXES		\$8,029.66
Projected Total Effective Tax Rate (as % of Assessed Value)		1.90%

⁽¹⁾ Assumes lot size of one acre or less.

Source: David Taussig & Associates, Inc.

Overlapping Assessment and Maintenance Districts

Metropolitan Water District Standby Charge. The Metropolitan Water District imposes an annual direct assessment at the rate of \$11.50 per year if the parcel is less than an acre. This assessment is used for capital improvements of the distribution system and the construction and maintenance of reservoirs. This assessment was first levied in the 1992- 93 tax year and will continue to be levied for an indefinite period. The Metropolitan Water District holds a public hearing once every year. Parcel with their own well may be exempted from this assessment.

Olivenhain Municipal Water Assessment District No. 96-1. Olivenhain Municipal Water District formed Assessment District No. 96-1 to finance a water storage project. The special assessment is currently \$54.63 per year for an equivalent dwelling unit. The apportionment of equivalent dwelling units per parcel varies depending on how the property was originally assessed during the formation of the assessment district. The average assessment for parcels within Improvement Area A is estimated to be \$78.57.

Olivenhain Municipal Water District Sewer Standby Charge. Olivenhain Municipal Water District imposes a sewer charge of \$480 per year for a single family home. The Sewer Standby Charge on vacant property is \$100 per year for each equivalent dwelling unit allocated to the property.

County Water Authority Water Availability Standby Charge. The County Water Authority imposes an annual direct assessment of \$10.00 per acre, or \$10.00 per parcel if the parcel is less than an acre. This pay-as-you-go assessment is used to fund capital improvements and will continue to be levied for an indefinite period.

County Mosquito/Rat Control. The San Diego County Department of Environmental Health imposes this annual direct assessment on all property within the County at the rate of \$2.28 per parcel. This assessment is fixed unless there is a vote by registered voters to increase the assessment. This pay-as-you-go assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to residents to control mosquito breeding and rodent activity.

Rancho Sante Fe Fire District Special Assessment. The Rancho Sante Fe Fire District established an assessment district that is authorized the levy an assessment for fire suppression services. The assessment is currently \$2.50 per equivalent building unit. The board has the option of raising this charge but does not expect to in the near future. Residential properties within the assessment district are assigned 2 equivalent building units if vacant and 5 equivalent building units if occupied.

County Service Area 83A Park Maintenance. The County Service Area is authorized to levy an assessment for park services. The assessment is currently \$88.06 per equivalent building unit. This rate is subject to inflation based on the Consumer Price Index. For residential property, a Detached Unit is considered 1 equivalent building unit, and an Attached Unit is considered 0.7 equivalent building unit.

Poway Unified School District CFD No. 6. The School District formed the Community Facilities District to levy a special tax to pay for school improvements. Currently the special tax is \$2,070.28 for Detached Units, \$915.70 for Attached Units, and \$1,104.08 per acre for Undeveloped Property. The special tax is subject to escalation each year based on increases in the construction cost index.

The Community Facilities District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County, the City or any other governmental agency having jurisdiction over all or a portion of the property within the Community Facilities District. Furthermore, nothing prevents the owners of property within the Community Facilities District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within a district on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2002 Bonds are issued between the value of the property and the debt secured by

the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay the Special Taxes when due.

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

BONDOWNERS' RISKS

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2002 Bonds. The Community Facilities District cautions prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2002 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area A to pay their Improvement Area A Special Taxes and Community Facilities District Special Taxes when due. Any such failure to pay Improvement Area A Special Taxes and Community Facilities District Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the 2002 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area A.

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 Improvement Area A, the supply of or demand for competitive properties in such area, and the market value of residential property in the event of sale or foreclosure; (ii) changes in real estate tax rate and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Concentration of Ownership

Utilizing the Assessor's Roll as of January 1, 2002 and matching the 565 lots within Improvement Area A for Fiscal Year 2002-03, the Special Tax Consultant has estimated that 4S Kelwood and the Merchant Builders would be responsible for approximately 100% percent of the Fiscal Year 2003-04 Improvement Area A Special Taxes. However, such percentage will decline assuming as sales of the homes occur during 2003 and 2004 and as individual homeowners acquire such homes. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Property Ownership." If a Merchant Builder is unwilling or unable to pay the Improvement Area A Special Taxes when due, a potential shortfall in the Bond Service Fund could occur, which would result in the depletion of the Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Improvement Area A Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2002 Bonds.

No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within Improvement Area A. The Improvement Area A Special Taxes are not a personal obligation of 4S Kelwood, any Merchant Builder or of any owner of the parcels, and the Community Facilities District can offer no assurance that any current owner or any future owner will be financially able to pay such installments or that it will choose to pay even if financially able to do so. See the separate subsection captioned "History of Property Tax Payment; Loan Defaults; Bankruptcy" for 4S Kelwood and each Merchant Builder in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – 4S Kelwood and the Merchant Builders."

Failure to Develop Properties

Development of property within Improvement Area A may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of 4S Kelwood, the Merchant Builders or any property owner to pay the Improvement Area A Special Taxes when due.

Land development is also 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. As of October 23, 2002, final maps have been recorded for 230 of the 565 lots in Improvement Area A (Neighborhood Two). The property within Improvement Area A is only partially developed with public infrastructure improvements and construction, some of which are substantially complete; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property within Improvement Area A will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within Improvement Area A. In addition, there is a risk that future governmental restrictions on land development within Improvement Area A will be enacted, either directly by a governmental entity with jurisdiction or by the voters through the exercise of the initiative power.

The failure to complete the development or the required infrastructure for Improvement Area A or substantial delays in the completion of the development or the required infrastructure for the development due to litigation, the inability to obtain required funding, failure to obtain necessary governmental approval or other causes may reduce the value of the property within Improvement Area A and increase the length of time during which Improvement Area A Special Taxes will be payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within Improvement Area A to pay the Improvement Area A Special Taxes when due. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Appraised Property Values."

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

Special Taxes Are Not Personal Obligations

The current and future owners of land within Improvement Area A are not personally liable for the payment of the Improvement Area A Special Taxes. Rather, the Improvement Area A Special Taxes is an obligation only of the land within Improvement Area A. If the value of the land within Improvement Area A is not sufficient to fully secure the Improvement Area A Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Improvement Area A Special Taxes have been levied and the 2002 Bonds have been issued.

The 2002 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2002 Bonds in the event Improvement Area A Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Improvement Area A Special Taxes are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2002 Bonds.

Appraised Values

The Appraisal summarized in APPENDIX C hereto estimates the fee simple interest market value of the residential property within Improvement Area A. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The Community Facilities District has not sought the present opinion of any other appraiser of the value of the Taxable Property. A different present opinion of such value might be rendered by a different appraiser.

The opinion of value relates to sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell nor to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion is a present opinion. It is based upon present facts and circumstances. Differing facts and circumstances may lead to differing opinions of value. The appraised market value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that if any of the Taxable Property in Improvement Area A should become delinquent in the payment of Improvement Area A Special Taxes, and be foreclosed upon, that such property could be sold for the amount of estimated market value thereof contained in the Appraisal.

Land Development

A major risk to the Bondowners is that development by the property owners in Improvement Area A may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within Improvement Area A could be adversely affected by unfavorable economic conditions, competing development projects, an inability of the current owners or future owners of the parcels to obtain financing, fluctuations in the real estate market or interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership of real estate, faster than expected depletion of existing water allocations, the appearance of previously unknown environmental impacts necessitating preparation of a supplemental environmental impact report, unfavorable economic conditions which might result from the September 11, 2001 airline hijackings and catastrophic destruction of the World Trade Center in New York, New York and damage to the Pentagon in Washington D.C., and by other similar factors. There can be no assurance that land development operations within Improvement Area A will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2002 Bonds (and therefore to the owners of the 2002 Bonds) should it be necessary for the Community Facilities District to foreclose on undeveloped property due to the nonpayment of Improvement Area A Special Taxes. Moreover, failure to complete future development on a timely basis could adversely affect the land values of those parcels which have been completed. Lower land values result in less security for the payment of principal of and interest on the 2002 Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Improvement Area A Special Taxes.

Furthermore, an inability to develop the land within Improvement Area A as planned will reduce the expected diversity of ownership of land within Improvement Area A, making the payment of debt service on the 2002 Bonds more dependent upon timely payment of the Improvement Area A Special Taxes levied on the undeveloped property. Because of the concentration of undeveloped property ownership, the timely payment of the 2002 Bonds depends upon the willingness and ability of the current owners of undeveloped land and any merchant builders to whom finished lots are sold to pay the Improvement Area A Special Taxes levied on the undeveloped land when due. Furthermore, continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See "Concentration of Ownership" above.

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

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

The table in the section entitled "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Direct and Overlapping Debt" states the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property and furthermore states the additional amount of general obligation bonds the tax for which, if and when issued, may become an obligation of one or more

of the parcels of Taxable Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Improvement Area A Special Taxes securing the 2002 Bonds.

In general, as long as the Improvement Area A Special Taxes are collected on the County tax roll, the Improvement Area A Special Taxes and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Improvement Area A Special Taxes securing the 2002 Bonds, the Improvement Area A Special Taxes will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Improvement Area A Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Improvement Area A Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Improvement Area A Special Taxes or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Improvement Area A Special Taxes is a claim with regard to a hazardous substance. See "Hazardous Substances" below.

Disclosure to Future Purchasers

The Community Facilities District has recorded a Notice of Special Tax Lien on behalf of itself, in the Office of the San Diego County Recorder on November 14, 2002 as Document No. 2002-1019182 with respect to Improvement Area A and March 27, 1998 as Document No. 1998-0169295 with respect to the Community Facilities District. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Improvement Area A Special Tax obligation and Community Facilities District Special Tax obligation in the purchase of a parcel of land or a home in Improvement Area A or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Improvement Area A Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Improvement Area A Special Taxes when due.

Government Approvals

4S Kelwood and Merchant Builders or their predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within Improvement Area A. Nevertheless, development within Improvement Area A is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the County and other public agencies. The failure to obtain any such approval could adversely affect construction within Improvement Area A. A slow down or stoppage of the construction process could adversely affect land values. No assurance can be given that permits will be obtained in a timely fashion, if at all. The failure to do so may result in the prevention, or significant delays in the development of the projects or portions thereof. See "Failure to Develop Properties" above.

Local, State and Federal Land Use Regulations

There can be no assurance that land development operations within Improvement Area A will not be adversely affected by future government policies, including, but not limited to, governmental policies which directly or indirectly restrict or control development. During the past several years, citizens of a number of local communities in California have placed measures on the ballot designed to control the rate of future development. During the past several years, state and federal regulatory agencies have significantly expanded their involvement in local land use matters through increased regulatory enforcement of various environmental laws, including the Endangered Species Act, the Clean Water Act and the Clear Air Act, among others. Such regulations can substantially impair the rate and amount of development without requiring just compensation unless the effect of the regulation is to deny all economic use of the affected property. Bondowners should assume that any event that significantly impacts the ability to construct homes on land in Improvement Area A could cause the land values within Improvement Area A to decrease substantially and could affect the willingness and ability of the owners of land to pay the Improvement Area A Special Taxes when due or to proceed with development of land in Improvement Area A. See "Failure to Develop Properties" above.

Utility Deregulation

The State of California in 2000 and 2001 experienced a crisis in the supply and pricing of electricity and gas. The crisis related to the State's deregulation of its energy markets. The crisis resulted in blackouts in several areas of the State in 2001 and further outages were predicted for the summer months when demand increases. No blackouts occurred in the summer of 2001. The Community Facilities District is served by the San Diego Gas and Electric Company. Under the current terms of State regulation, San Diego Gas and Electric Company has been able to pass through significant portions of the substantial increase in the wholesale cost of gas and electricity to its customers. Other electrical utilities, such as Southern California Edison Company and Pacific Gas and Electric Company have experienced a significant cash crisis and Pacific Gas and Electric Company submitted a Chapter 11 bankruptcy filing for protection from its creditors on April 6, 2001. The effect of the crisis on the local or State economy can not be predicted.

State Budget

As a result of the slowing State and United States economies, the State is experiencing serious budgetary shortfalls for the current fiscal year. Power purchases by the State from general fund appropriations have significantly reduced the State's cash reserves. In addition, the terrorist attacks of September 11, 2001 and subsequent hostilities have resulted in increased uncertainty regarding the economic and revenue outlook for the State. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within Improvement Area A cannot be predicted.

Endangered and Threatened Species

It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in Improvement Area A or reduce the value of undeveloped property. Failure to develop the vacant property in Improvement Area A as planned, or substantial delays in the completion of the planned development of the property may increase the amount of Improvement Area A Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within Improvement Area A to pay the Improvement Area A Special Taxes when due.

At present, other than the species covered by the Implementing Agreement and the Habitat Management Plan, the vacant property within Improvement Area A is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed as endangered or threatened. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Environmental Permits" for a discussion of the Implementing Agreement and Subarea Plan and the Habitat Management Plan. Furthermore, 4S Kelwood reports that the vacant property within Improvement Area A proposed to be developed by 4S Ranch is not known by the 4S Ranch to be inhabited by any plant or animal species which either the California Fish and

Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Improvement Area A Special Taxes is a claim with regard to hazardous substances. In general, the owners and operators of parcels within Improvement Area A may be required by law to remedy conditions of the parcels related to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within Improvement Area A be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

4S Kelwood retained Geocon Incorporated to conduct geotechnical investigations of its proposed development site in Neighborhood One and Neighborhood Two. In its opinion, each site could be developed as planned provided certain recommendations of the report were followed.

One issue with respect to development in certain portions of the County relates to methane gas. In March, 2002, the County established new permitting guidelines relating to the testing protocol and mitigation measures (e.g. passive venting and vapor barriers) required with respect to methane vapors. The Developer and each Merchant Builder is aware of the permitting guidelines and each Merchant Builder intends to comply with requirements.

The value of the property within Improvement Area A, as set forth in the appraised values set forth in the Appraisal hereto, do not take into account the possible reduction in marketability and value of any of the parcels of Taxable Property by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of Taxable Property, except as expressly noted. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

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

Insufficiency of the Special Tax

The principal source of payment of principal of and interest on the 2002 Bonds is the proceeds of the annual levy and collection of the Improvement Area A Special Taxes against property within Improvement Area A. The annual levy of the Improvement Area A Special Taxes is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Improvement Area A Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2002 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Improvement Area A Special

Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Improvement Area A Special Taxes are delinquent.

The levy of the Improvement Area A Special Taxes will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Improvement Area A Special Taxes against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2002 Bonds, and certainly not a direct relationship.

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

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

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

Except as set forth above under "SECURITY FOR THE 2002 BONDS – Special Taxes" and " – Rates and Methods" herein, the Bond Indenture provides that the Improvement Area A Special Taxes are to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE 2002 BONDS – Proceeds of Foreclosure Sales" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2002 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See "SECURITY FOR THE 2002 BONDS – Proceeds of Foreclosure Sales."

In addition, the Improvement Area A Rate and Method limits the increase of Improvement Area A Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in Improvement Area A. See "SECURITY FOR THE 2002 BONDS – Rates and Methods" herein.

Exempt Properties

Certain properties are exempt from the Improvement Area A Special Tax in accordance with the Improvement Area A Rate and Method (see "SECURITY FOR THE 2002 BONDS – Rates and Methods" herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Improvement Area A Special Tax; provided, however, that property within Improvement Area A acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Improvement Area A Special Tax, will continue to be subject to the Improvement Area A Special Taxes. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Improvement Area A Special Taxes. In addition, although the Act provides that if property subject to the Improvement Area A Special Taxes are acquired by a public entity through eminent domain proceedings, the obligation to pay the Improvement Area A 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, meaning that such property could become exempt from the Improvement Area A Special Taxes. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Improvement Area A Special Taxes.

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

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE 2002 BONDS – Reserve Fund" herein). Funds in the Reserve Fund may be used to pay principal of and interest on the 2002 Bonds in the event the proceeds of the levy and collection of the Improvement Area A Special Taxes against property within Improvement Area A are insufficient. If funds in the Reserve Fund for the 2002 Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Improvement Area A Special Taxes that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the Bond Indenture. However, no replenishment from the proceeds of an Improvement Area A Special Tax levy can occur as long as the proceeds that are collected from the levy of the Improvement Area A Special Taxes against property within Improvement Area A, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Improvement Area A Special Taxes.

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Improvement Area A Special Taxes 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 2002 BONDS – Proceeds of Foreclosure Sales" and "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Improvement Area A Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest. The FDIC would obtain such an interest by taking over a financial institution which has made a loan which is secured by property within Improvement Area A. See "BONDOWNERS' RISKS – Payments by FDIC and Other Federal Agencies."

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

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

minimum bid. Such Superior Court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding 2002 Bonds.

Delays and uncertainties in the Improvement Area A Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Improvement Area A Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2002 Bonds. See "Concentration of Ownership" above.

Bankruptcy and Foreclosure Delay

The payment of Improvement Area A Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Improvement Area A Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 2002 BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2002 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Improvement Area A Special Taxes to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Improvement Area A Special Taxes, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Improvement Area A Special Taxes and could result in the possibility of delinquent Improvement Area A Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Improvement Area A Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Improvement Area A Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Improvement Area A Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2002 Bonds and the possibility of delinquent Improvement Area A Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in Improvement Area A is owned by 4S Kelwood, a Merchant Builder, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Improvement Area A Special Tax and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Improvement Area A Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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

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

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

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

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

Payments by FDIC and Other Federal Agencies

The ability of the Community Facilities District to collect interest and penalties specified by state law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

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

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997 and that was owned by the RTC on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed

pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed. The decision of the United States Court of Appeals for the 9th Circuit (the "9th Circuit Court") was filed on August 28, 2001. In its decision, the Court stated that the FDIC as a federal agency is exempt from the Mello-Roos Special Tax. The FDIC has also filed suit (the "post-bankruptcy" suit) regarding special taxes imposed after 1994. However, such action has been stayed pending resolution of the 9th Circuit Court appeal by the FDIC regarding the bankruptcy case. The post-bankruptcy suit has recently been consolidated with the cases filed by the FDIC against other California counties and is pending in the United States District Court in Los Angeles. The FDIC has filed a motion to lift the bankruptcy stay.

The School District and the Community Facilities District are unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within Improvement Area A in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2002 Bonds should assume that the Community Facilities District will be unable to collect Improvement Area A Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2002 Bonds. Based upon the secured tax roll as of January 1, 2001, the FDIC does not presently own any of the property in Improvement Area A. The Community Facilities District expresses no view concerning the likelihood that the risks described above will materialize while the 2002 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

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

Seismic Conditions. Improvement Area A, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in Improvement Area A could result in substantial damage to properties in Improvement Area A which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Improvement Area A Special Taxes. Any major damage to structures as a result of seismic activity could result in greater reliance on undeveloped property in the payment of Improvement Area A Special Taxes.

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

No Acceleration Provisions

The 2002 Bonds do not contain a provision allowing for the acceleration of the 2002 Bonds in the event of a payment default or other default under the terms of the 2002 Bonds or the Bond Indenture. Pursuant to the Bond Indenture, a bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX D – “Summary of Certain Provisions of the Bond Indenture” herein). So long as the 2002 Bonds are in book-entry form, DTC will be the sole bondowner and will be entitled to exercise all rights and remedies of bondowner.

District Formation

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

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

Billing of Improvement Area A Special Taxes

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

Under provisions of the Act, the Improvement Area A Special Taxes are billed to the properties within Improvement Area A which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Improvement Area A Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Improvement Area A 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 Improvement Area A Special Taxes in the future. See “SECURITY FOR THE 2002 BONDS – Proceeds of Foreclosure Sales” for a discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Improvement Area A Special Taxes.

Inability to Collect Special Taxes

In order to pay debt service on the 2002 Bonds, it is necessary that the Improvement Area A Special Taxes levied against land within Improvement Area A be paid in a timely manner. The Community Facilities District has covenanted in the Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Improvement Area A Special Tax in order to obtain funds to pay debt service on the 2002 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 Improvement Area A Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2002 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 Improvement Area A Special Tax installment. Although the Act authorizes the Board of Education to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board of Education 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 2002 BONDS – Proceeds of Foreclosure Sales."

Right to Vote on Taxes Act

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC ("Article XIIC") and Article XIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2002 Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Improvement Area A Special Taxes in a manner which does not interfere with the timely repayment of the 2002 Bonds but which does reduce the maximum amount of Improvement Area A Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Improvement Area A Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Improvement Area A Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2002 Bonds.

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

The foregoing discussion of the Initiative should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of the Initiative on the 2002 Bonds as well as the market for the 2002 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

Ballot Initiatives and Legislative Measures

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

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2002 Bonds or, if a secondary market exists, that such 2002 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2002 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the 2002 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2002 Bonds as a result of an act or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2002 Bonds, the Community Facilities District has covenanted in the Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2002 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2002 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 Bond Indenture. See "THE 2002 BONDS – Redemption."

Limitations on Remedies

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2002 Bonds or to preserve the tax-exempt status of the 2002 Bonds. See "Payments by FDIC and other Federal Agencies," "No Acceleration Provision" and "Billing of Improvement Area A Special Taxes" herein.

The Board of Education has not evaluated the foregoing risks, and further, is not aware of any evaluation of these risks by the landowners. Since these are largely business risks of the type that landowners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel of Taxable Property, the Board of Education has undertaken financing of the acquisition and construction of the Infrastructure Improvements without regard to any such evaluation, as an incident to the orderly, planned

development of the project site. Thus, formation of Improvement Area A by the Board of Education in no way implies that the Board of Education has evaluated these risks or the reasonableness of these risks, but to the contrary, the Board of Education has made no such evaluation and is undertaking acquisition and construction of Infrastructure Improvements even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values.

LEGAL MATTERS

Legal Opinion

The legal opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, approving the validity of the 2002 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix G. A copy of the legal opinion will be printed on each 2002 Bond. McFarlin & Anderson, Lake Forest, California is serving as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

Tax Exemption

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2002 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the 2002 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in the Bond Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2002 Bonds.

In the further opinion of Bond Counsel, interest on the 2002 Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the 2002 Bonds is less than the amount to be paid at maturity of such 2002 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2002 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 2002 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2002 Bonds is the first price at which a substantial amount of such maturity of the 2002 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2002 Bonds accrues daily over the term to maturity of such 2002 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2002 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2002 Bonds. Owners of the 2002 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2002 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2002 Bonds in the original offering to the public at the first price at which a substantial amount of such 2002 Bonds is sold to the public.

The 2002 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond

premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Owners of the 2002 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2002 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2002 Bonds other than as expressly described above.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2002 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2002 Bonds or in any way contesting or affecting the validity of the 2002 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District acting on behalf of the Community Facilities District will be delivered to the Underwriter simultaneously with the delivery of the 2002 Bonds.

No General Obligation of School District or Community Facilities District

The 2002 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Improvement Area A Special Tax and proceeds of the 2002 Bonds, including amounts in the Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to the Bond Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2002 Bonds shall be limited to the Improvement Area A Special Taxes to be collected within the Community Facilities District.

NO RATINGS

The 2002 Bonds have not been rated by any securities rating agency.

UNDERWRITING

The 2002 Bonds are being purchased by the Stone & Youngberg LLC at a purchase price of \$17,730,000 (which represents the aggregate principal amount of the 2002 Bonds of \$18,000,000, less an underwriter's discount of \$270,000).

The purchase agreement relating to the 2002 Bonds provides that the Underwriter will purchase all of the 2002 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2002 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

Except for some Bond Counsel fees paid from advances made to the School District by 4S Kelwood, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and State Street Bank and Trust Company of California, N.A. (or its successor), as the Fiscal Agent, are contingent upon the issuance of the 2002 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2002 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2002 Bonds.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2002 Bonds.

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

COMMUNITY FACILITIES DISTRICT NO. 6 (4S
RANCH) OF THE POWAY UNIFIED SCHOOL
DISTRICT

By: /s/ Keith L. Bradford
Keith L. Bradford, Associate Superintendent of
the Poway Unified School District on behalf of
Community Facilities District No. 6 (4S Ranch) of
the Poway Unified School District

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APPENDIX A

GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

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

Introduction

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098, Attention: Associate Superintendent - Business Support Services.

General Information

The School District is a school district organized under the laws of the State of California. The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 99.1 square mile area of San Diego County. The School District currently operates 21 (K-5) elementary schools, five (6-8) middle schools, four comprehensive high schools (9-12) and one continuation high school. The School District includes the City of Poway and portions of the City of San Diego in San Diego County, California. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2002-03 academic year is approximately 31,405. As of January 2001, the estimated population within the School District's boundaries was approximately 162,250 and as of January 2002, approximately 32,475 students attended schools in the School District. The pupil/teacher ratio is approximately 20:1 for grades K-3 and 30:1 for grades 4-12. The School District has implemented classroom size reduction in grades K through 3 and in such classes, the pupil/teacher ratio is approximately 20:1. There is a lower class size average for 9th grade English and Mathematics.

Administration and Enrollment

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

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs a Deputy Superintendent, four Area Superintendents for Learning Support Services, an Associate Superintendent of Business Support Services and an Assistant Superintendent of Personnel Support Services.

From fiscal year 1994-95 through fiscal year 2001-02, the School District's enrollment increased by 3,470, an average of approximately 2 percent per year. Information concerning enrollment for these years, as well as estimated fiscal year 2002-03 are set forth below:

**Poway Unified School District
Student Enrollment**

	<u>Fiscal Year</u>	<u>Enrollment</u>	<u>District Average Daily Attendance</u>	<u>District Base Revenue Limit</u>
<i>Historical</i>	1994-95	29,037	29,020	\$3,468.39
	1995-96	29,940	29,893	3,615.36
	1996-97	30,664	30,531	3,809.77
	1997-98	31,309	31,214	3,912.12
	1998-99 ⁽¹⁾	31,831	30,877	4,214.70
	1999-00	32,546	31,515	4,274.70
	2000-01	32,528	31,203	4,412.70
	2001-02	32,507	31,319	4,597.38
<i>Estimated</i>	2002-03	32,523	31,405	4,679.70

Source: California Department of Education and the School District.

- ⁽¹⁾ The decrease in the rate of growth from Fiscal Year 1997-98 is due to State legislation that changed the method of calculating ADA to eliminate excused absences from the total. The legislation also increased the Base Revenue Limit so that the change in methodology did not result in a loss of revenue for districts.

Labor Relations

As of August 1, 2002, the School District employed approximately 2,362 certificated professionals and approximately 1,616 classified employees. The certificated professionals, except management and some part-time employees, are represented by the bargaining unit as noted below:

**Poway Unified School District
District Employees**

<u>Labor Organization</u>	<u>Approximate Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Poway Federation of Teachers (PFT), Local 2357	1,750	6/30/02 ⁽¹⁾
Service Employees International Union	483	6/30/04
California School Employees Association	1,224	6/30/04

- ⁽¹⁾ The Poway Federation of Teachers contract expired June 30, 2002 but is still in effect as of September 1, 2002.

Source: The School District

Retirement Programs

The School District participates in the State of California Teachers Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS for Fiscal Year 1999-00 was \$7,853,513.41, in Fiscal Year 2000-01 was \$8,814,311.32, in Fiscal Year 2001-02 was \$9,265,362 and in Fiscal Year 2002-03 is budgeted at \$9,332,415. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees Retirement Systems ("PERS"). This plan covers all classified personnel who are employed 1,000 or more hours per fiscal year. The School District's contribution to PERS since 1998 has been \$0.00. The contribution for Fiscal Year 2002-03 is budgeted at \$763,088.

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

Insurance

The School District maintains commercial insurance or self-insurance for property damage, general liability and workers' compensation in such amounts and with such retentions and other terms as the School District believes to be adequate based on actual risk exposure and as may be required by statute.

The State of California has authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. Under this program, the Fund provides coverage for individual claims up to a limit of \$350,000. Commercial insurance is purchased to defray claim costs exceeding the self-insured retention level.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$100,000 per claim and property losses up to \$100,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems breakdown (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through a combination of pooling through a joint powers authority and purchase of commercial insurance and reinsurance policies.

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APPENDIX B

**FIRST AMENDED RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 6
OF THE POWAY UNIFIED SCHOOL DISTRICT
(IMPROVEMENT AREA A)**

AND

**RATE AND METHOD OF APPORTIONMENT FOR
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)**

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**FIRST AMENDED
RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 6
OF THE POWAY UNIFIED SCHOOL DISTRICT
(IMPROVEMENT AREA A)**

An Annual Special Tax shall be levied on and collected in Improvement Area ("IA") A of Community Facilities District ("CFD") No. 6 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in IA A of CFD No. 6, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"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 Subdivision Map, other final map, parcel map, condominium plan, or other recorded County parcel map.

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

"Administrative Expenses" means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of IA A of CFD No. 6.

"Annual Special Tax" means the Special Tax levied each Fiscal Year on an Assessor's Parcel as set forth in Section F. Prior to the issuance of Bonds, Annual Special Tax revenues shall be used entirely to fund Non-School Facilities. Each Fiscal Year after Bonds have been issued, the Annual Special Tax revenues shall be used in the following order of priority (i) to satisfy the Annual Special Tax Requirement and (ii) to fund School Facilities.

"Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (i) the annual debt service on all outstanding Bonds, (ii) the Administrative Expenses of IA A of CFD No. 6, (iii) any costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

"Assessor's Parcel" means a Lot or parcel of land in IA A of CFD No. 6 which is designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

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

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"Assigned Annual Special Tax" means the Special Tax of that name as set forth in Section D.

"Associate Superintendent" means the Associate Superintendent of Business Support Services of the School District or his/her designee.

"Attached Unit" means a Unit that consists or shall consist of a building or buildings in which each of the individual Units has at least one common wall with another Unit.

"Backup Annual Special Tax" means the Special Tax of that name described in Section E below.

"Board" means the Board of Education of the School District or its designee.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes of IA A of CFD No. 6 are pledged.

"Building Square Footage" or "BSF" means the square footage of internal living space of a Unit, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Unit or other applicable records of the County.

"Calendar Year" means any period beginning January 1 and ending December 31.

"County" means the County of San Diego.

"Detached Unit" means a Unit which is not an Attached Unit.

"Developed Property" means all Assessor's Parcels of Taxable Property for which a building permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

"Exempt Property" means the property designated as Exempt Property in Section J.

"Final Subdivision Map" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Gross Prepayment Amount" means any amount determined by reference to Table 2 and adjusted as set forth in Section G.

"Lot" means an individual legal lot created by a Final Subdivision Map for which a building permit for a Unit has been or could be issued, provided that land for which one or more building permits have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, which can be levied by IA A of CFD No. 6 on any Assessor's Parcel in any Fiscal Year.

"Non-School Facilities" means any infrastructure necessary to develop the Project owned or to be owned by a public agency other than the School District.

"Prepayment Amount" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Sections G.

"Project " means 4S Ranch.

"Proportionately" means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor's Parcels.

"School Facilities" means any public facilities owned or to be owned by the School District.

"Special Tax" means any of the special taxes authorized to be levied in IA A of CFD No. 6 under the Act.

"Taxable Property" means all Assessor's Parcels which are not Exempt Property.

"Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.

"Unit" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units. Each Unit shall be classified an Attached Unit or a Detached Unit.

SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2002-03, (i) each Assessor's Parcel shall be classified as Taxable Property or Exempt Property; (ii) each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property; (iii) each Assessor's Parcel of Developed Property shall be classified as a Detached Unit or an Attached Unit and (iv) each Detached Unit and Attached Unit shall be classified according to its Building Square Footage.

SECTION C
MAXIMUM SPECIAL TAX

1. Developed Property

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax.

2. Undeveloped Property

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax.

SECTION D
ASSIGNED ANNUAL SPECIAL TAXES

1. Developed Property

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2002-03 shall be the amount determined by reference to Table 1 below.

TABLE 1

<i>ASSIGNED ANNUAL SPECIAL TAX FOR DEVELOPED PROPERTY FISCAL YEAR 2002-03</i>		
Unit Type	Building Square Footage	Assigned Annual Special Tax
Detached Unit	≤ 2,100	\$524.75 per Unit
Detached Unit	2,101 - 2,400	\$1,014.96 per Unit
Detached Unit	2,401 - 2,700	\$1,148.66 per Unit
Detached Unit	2,701 - 3,000	\$1,416.05 per Unit
Detached Unit	3,001 - 3,300	\$1,638.87 per Unit
Detached Unit	3,301 - 3,600	\$2,084.52 per Unit
Detached Unit	3,601 - 3,900	\$2,351.91 per Unit
Detached Unit	> 3,900	\$2,530.17 per Unit
Attached Unit	< 1,000	\$195.84 per Unit
Attached Unit	> 1,000	\$524.75 per Unit

Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2002-03 shall be \$9,822.00 per acre of Acreage.

Each July 1, commencing July 1, 2003, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

SECTION E BACKUP ANNUAL SPECIAL TAX

Each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax for Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at buildout, as determined by the Associate Superintendent pursuant to Section J
L	=	Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of the Final Subdivision Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision Map area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Board.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 2002-03, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in IA A of CFD No. 6 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

First: The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

Second: If the sum of the amounts levied on Assessor's Parcels in the first step above is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

Third: If the sum of the amounts levied on Assessor's Parcels in the first and second steps above is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Annual Special Tax shall be increased Proportionately from the Assigned Annual Special Tax up to the Backup Annual Special Tax to satisfy the Annual Special Tax Requirement.

SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAX

The property owner of any Final Subdivision Map where no building permits have been issued may prepay the entire Annual Special Tax obligation of IA A of CFD No. 6 for all Assessor's Parcels created by such Final Subdivision Map. In order to prepay the entire Annual Special Tax obligation of IA A of CFD No. 6 (i) there must be no delinquent Special Taxes, penalties, or interest charges outstanding with respect to any Assessor's Parcel in the Final Subdivision Map at the time the Annual Special Tax obligation is prepaid, (ii) prepayment for each Assessor's Parcel in the Final Subdivision Map shall be collected prior to the issuance of the first building permit in such Final Subdivision Map, and (iii) the Final Subdivision Map must ultimately contain at least 25 Detached Units or 50 Attached Units. The Prepayment Amount for an Assessor's Parcel in a Final Subdivision Map eligible for prepayment shall be determined as described below.

1. Prior to Issuance of Bonds

Prior to the issuance of Bonds, the Prepayment Amount in Fiscal Year 2002-03 for each Assessor's Parcel of Developed Property and each Assessor's Parcel of Undeveloped Property for which a building permit has been issued shall be the amount equal to the Gross Prepayment Amount. The Gross Prepayment Amount shall be the amount determined by reference to Table 2.

TABLE 2

GROSS PREPAYMENT AMOUNT FISCAL YEAR 2002-03		
Unit Type	Building Square Footage	Gross Prepayment Amount
Detached Unit	≤ 2,100	\$5,982.24 per Unit
Detached Unit	2,101 - 2,400	\$11,570.82 per Unit
Detached Unit	2,401 - 2,700	\$13,094.98 per Unit
Detached Unit	2,701 - 3,000	\$16,143.30 per Unit
Detached Unit	3,001 - 3,300	\$18,683.57 per Unit
Detached Unit	3,301 - 3,600	\$23,764.10 per Unit
Detached Unit	3,601 - 3,900	\$26,812.70 per Unit
Detached Unit	> 3,900	\$28,844.63 per Unit
Attached Unit	< 1,000	\$2,232.63 per Unit
Attached Unit	> 1,000	\$5,982.24 per Unit

Each July 1, commencing July 1, 2003, the Gross Prepayment Amount shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

2. Subsequent to Issuance of Bonds

Subsequent to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For each Assessor's Parcel of Developed Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax. For each Assessor's Parcel of Undeveloped Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit issued for that Assessor's Parcel.

2. For each Annual Special Tax obligation to be prepaid, (a) divide the Assigned Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Assigned Annual Special Tax applicable to all Assessor's Parcels of Developed Property at buildout, as reasonably determined by the Associate Superintendent, and (b) divide the Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Backup Annual Special Tax applicable to all Assessor's Parcels of Developed Property at buildout, as reasonably determined by the Associate Superintendent.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. The product is the "Bond Redemption Amount."
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 9) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
6. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.
7. Subtract the amount computed pursuant to paragraph 6 from the amount computed pursuant to paragraph 5. This difference is the "Defeasance."
8. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
9. Assuming the reserve fund was funded by Bond proceeds, calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirements in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.

10. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid pursuant to this Section G, the Associate Superintendent shall indicate in the records of IA A of CFD No. 6 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Tax that may be levied in IA A of CFD No. 6, net of an allocable portion of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year, as reasonably determined by the Associate Superintendent.

SECTION H

PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES

The Annual Special Tax obligation of an Assessor's Parcel may be partially prepaid at the times and under the conditions set forth in this section, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

1. Partial Prepayment Times and Conditions

Prior to the issuance of the first building permit for the construction of a production Unit on a Lot within a Final Subdivision Map area, the owner of no less than all the Taxable Property within such Final Subdivision Map area may elect in writing to the Board to prepay a portion of the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map area, as calculated in Section H.2. The partial prepayment of each Annual Special Tax obligation shall be collected prior to the issuance of the first building permit with respect to each Assessor's Parcel.

2. Partial Prepayment Amount

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount
- P_G = the Prepayment Amount calculated according to Section G
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation

3. Partial Prepayment Procedures and Limitations

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of IA A of CFD No. 6 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property after such partial prepayment, net of allocable Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year, as reasonably determined by the Associate Superintendent.

SECTION I TERMINATION OF SPECIAL TAX

The Annual Special Tax shall be levied for a term of thirty-three (33) Fiscal Years after the issuance of Bonds by IA A of CFD No. 6, but in no event shall the Annual Special Tax be levied after Fiscal Year 2040-41.

SECTION J EXEMPTIONS

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, and (v) other types of Assessor's Parcels, at the reasonable discretion of the Associate Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 126.90 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 126.90 acres of Acreage will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

SECTION K APPEALS

Any owner of an Assessor's Parcel claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Associate Superintendent not later than one (1) Calendar Year after having paid the first installment of the Special Tax that is being disputed. The Associate Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the Special Tax, and reasonably rule on the appeal. If the Associate Superintendent's decision reasonably requires that the Special Tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION L
MANNER OF COLLECTION

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that IA A of CFD No. 6 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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**RATE AND METHOD OF APPORTIONMENT
OF THE SPECIAL TAX
FOR COMMUNITIES FACILITIES DISTRICT NO. 6
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A One-Time Special Tax and an Annual Special Tax shall be levied on and collected in Community Facilities District No. 6 ("CFD No. 6") of the Poway Unified School District (the "School District") in amounts to be determined through the application of this Rate and Method of Apportionment of the Special Tax ("RMA"). All of the real property in CFD No. 6, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acreage" means the land area of an Assessor's Parcel, exclusive of land area identified as open space on a Final Map and land area encumbered with public or utility easements making impractical such land area use for purposes other than those set forth in the easements, including recorded easements for conservation or open space purposes, as reasonably calculated or determined by the Assistant Superintendent based on the applicable Assessor Parcel Map, Final Map, parcel map, condominium plan, or other recorded County parcel map or applicable data.

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

"Administrative Expenses" means any ordinary and necessary expense incurred by the School District on behalf of the CFD related to the determination of the amount of the levy of special taxes (e.g., administration consultant, fiscal agent, **arbitrage** consultant, etc.), the collection of special taxes including the expenses of collecting delinquencies, the administration of Bonds, the cost of complying with disclosure requirements of applicable federal and state security laws and the Act, and the costs of the payment of the appropriate **allocable** share of salaries and benefits of any School District employee whose duties are directly related to the administration of the CFD.

"Affordable Unit" means one of not more than 150 Units that (i) is located or shall be located within a building in which each of the individual Units has or shall have at least one common wall with another Unit and (ii) is subject to **affordable housing** restrictions under any applicable law. The first 150 Units which meet the criteria set forth in (i) and (ii) of the preceding sentence and for which Building Permits are issued will be designated **permanently** and irrevocably as Affordable Units.

"Annual Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property.

"Assessor's Parcel" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

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

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"Assigned Annual Special Tax" means (i) for Developed Property, the special tax of that name calculated as described in Section E.1. below, or (ii) for Undeveloped Property, the special tax of that name calculated as described in Section E.2. below.

"Assistant Superintendent" means the Assistant Superintendent, Business Support Services of the School District or his/her designee.

"Attached Unit" means a Unit that (i) is located or shall be located within a building in which each of the individual Units has or shall have at least one common wall with another Unit, and (ii) is not an Affordable Unit.

"Board" means the Board of Education of the School District or its designee.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof incurred by CFD No. 6 or the School District.

"Building Square Footage" or "BSF" for any Residential Property means all of the square footage within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, detached accessory structure, or similar area, as defined in Section 65995 of the Government Code.

"Building Permit" means a permit for construction of a residential or commercial/industrial structure. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of utility improvements, retaining walls, parking structures or other such improvements not intended for human habitation or commercial/industrial use.

"Calendar Year" means the period commencing on January 1 of any year and ending the following December 31.

"CFD No. 6" means Community Facilities District No. 6 established by the School District under the Act.

"Commercial/Industrial Property" means all Assessor's Parcels of Developed Property other than Residential Property and Exempt Property.

"County" means the County of San Diego.

"Detached Unit" means a Unit which is not an Affordable Unit or an Attached Unit.

"Developed Property" means all Assessor's Parcels in CFD No. 6 for which Building Permits for new construction were issued after the formation of CFD No. 6 and on or before January 1 of the prior Fiscal Year.

"Exempt Property" means the property designated as being exempt from special taxes in Section J.

"Facilities" means those school facilities (including land) and other facilities which the School District is authorized by law to construct, own or operate and which would service the properties within CFD No. 6.

"Final Map" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Gross Floor Area" or "GFA" means for Commercial/Industrial Property, the covered and enclosed space determined to be within the perimeter of a commercial or industrial structure, not including any storage areas incidental to the principal use of the development, garage, parking structure, unenclosed walkway, or utility or disposal area, as defined in Section 65995 of the Government Code.

"Gross Prepayment Amount" for any Assessor's Parcel of Developed Property means that gross prepayment amount determined by reference to Table 2 and adjusted as set forth in Section G.

"Index" means the Marshall & Swift Western Region Class D Wood Frame Index ("M&S Index"), and if the M&S Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate increases or decreases in school construction costs, or in the absence of such an index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc.

"Land Use Class" means any of the classes of Developed Property, i.e., Commercial/Industrial Property, Exempt Property, and Residential Property.

"Master Developer" means 4S Kelwood General Partnership, a California general partnership or any successor.

"Maximum Special Tax" means the maximum special tax, determined in accordance with Section C, that can be levied by CFD No. 6 on any Assessor's Parcel in any Fiscal Year.

"One-Time Special Tax" means the single payment special tax to be collected from the owner of an Assessor's Parcel of Undeveloped Property, pursuant to Section D below.

"Partial Prepayment Amount" means the dollar amount required to prepay a portion of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section H.

"Prepayment Amount" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section G.

"Prepayment Ratio" means, with respect to an Assessor's Parcel, for each series of Bonds, the ratio of (i) the Assigned Annual Special Tax or portion thereof applicable to the Assessor's Parcel at the time each such series of Bonds was issued and which was used in providing the minimum debt service coverage required to issue such series of Bonds, as reasonably determined by the Assistant Superintendent, to (ii) the sum of all the Assigned Annual Special Taxes used in providing the minimum debt service coverage required to issue such series of Bonds, as reasonably determined by the Assistant Superintendent.

"Residential Property" means all Assessor's Parcels of Developed Property for which the Building Permit was issued for purposes of constructing a Unit(s).

"Special Tax Requirement" means the amount required in any Fiscal Year to pay: (i) the regularly scheduled debt service payments on all Bonds which are due in the Calendar Year commencing during such Fiscal Year, assuming that principal is paid when due without acceleration or optional redemption, (ii) credit or liquidity fees on the Bonds, (iii) the cost of acquisition or construction of Facilities, (iv) Administrative Expenses, (v) the costs associated with the release of funds from an escrow account, (vi) any amount required to establish, maintain, or replenish any reserve funds and credit enhancement facilities established in association with the Bonds, (vii) lease payments for Facilities, and (viii) any other payments permitted by law.

"Special Tax Requirement A" means, in Fiscal Years in which an elementary school located within or financed by CFD No. 6 is opened, the amount required to fund the Technology Budget, less any amount previously received by CFD No. 6 for such purpose from Master Developer. In Fiscal Years in which no elementary school located within or financed by CFD No. 6 is opened, the Special Tax Requirement A shall be \$0.

"Taxable Property" means all Assessor's Parcels within the boundaries of CFD No. 6 which are not exempt from the special tax pursuant to law or Section J below.

"Technology Budget" means, for Fiscal Year 1997-98, \$238,770 for each elementary school constructed in CFD No. 6. Each July 1, commencing July 1, 1998, the Technology Budget for each elementary school constructed in CFD No. 6 shall be increased or decreased by the annual percentage change in the Index. For purposes of this calculation, the annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Fiscal Year.

"Undeveloped Property" means all Assessor's Parcels in CFD No. 6 for which no Building Permit was issued after the formation of CFD No. 6 and on or before January 1 of the prior Fiscal Year.

"Undeveloped Special Tax Requirement" means the greater of (i) \$0 or (ii) the amount required in any Fiscal Year to pay: (1) the regularly scheduled debt service payments on all Bonds which are due in the Calendar Year commencing during such Fiscal Year, assuming that principal is paid when due without acceleration or optional redemption, (2) credit or liquidity fees on the Bonds, (3) Administrative Expenses, and (4) any amount required to establish, maintain, or replenish any

reserve funds and credit enhancement facilities established in association with the Bonds, less the sum of the amounts levied on Developed Property in Section F.1.

"Unit" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units. Each Unit shall be classified as an Affordable Unit, an Attached Unit, or a Detached Unit.

"Zone A" means the area within the boundaries of CFD No. 6 designated as Zone A on the map of the boundaries of CFD No. 6 most recently recorded in the Maps of Assessment and Community Facilities Districts in the Office of the Recorder of the County, which area is designated at the time of the formation of CFD No. 6 as Assessor's Parcel Numbers 678-030-06-00 and 678-050-09-00.

SECTION B PROPERTY CLASSIFICATION

For each Fiscal Year, beginning Fiscal Year 1997-98, each Assessor's Parcel in CFD No. 6 shall be classified as an Assessor's Parcel of Developed Property, Undeveloped Property or Exempt Property.

SECTION C MAXIMUM SPECIAL TAX

1. Developed Property

In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Residential Property shall be the Assigned Annual Special Tax. In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Commercial/Industrial Property shall be the amount of any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit, which amount may be levied on such Assessor's Parcel when classified as Developed Property in any following Fiscal Year.

2. Undeveloped Property

In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property not located in Zone A shall be the sum of (i) the Assigned Annual Special Tax and (ii) the One-Time Special Tax. In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property located in Zone A shall be the sum of (i) the Assigned Annual Special Tax, (ii) the Zone A Assigned Annual Special Tax, and (iii) the One-Time Special Tax.

SECTION D
ONE-TIME SPECIAL TAX

A One-Time Special Tax shall be collected from the owner of each Assessor's Parcel of Undeveloped Property on the date a Building Permit is issued for such Assessor's Parcel. There shall be no One-Time Special Tax for Assessor's Parcels of Undeveloped Property for which the Building Permit is issued for the construction of a residential structure. The One-Time Special Tax for Calendar Year 1997 for Assessor's Parcels of Undeveloped Property for which the Building Permit is issued for the construction of a structure other than a residential structure shall be \$0.30 per square foot of Gross Floor Area.

On each January 1, commencing January 1, 1998, the amount of the One-Time Special Tax shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Calendar Year. The annual percent change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

SECTION E
ASSIGNED ANNUAL SPECIAL TAX

1. Developed Property

a. **Assigned Annual Special Tax for New Developed Property**

The Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be the amount determined by reference to Table 1 below, subject to adjustment as described below, as applicable.

TABLE 1
ASSIGNED ANNUAL SPECIAL TAX
FOR NEW DEVELOPED PROPERTY
FOR FISCAL YEAR 1997-98

Land Use Class	Unit Type	Assigned Annual Special Tax 1997-98
Residential Property	Detached Unit	\$1,770.00 per Unit
Residential Property	Attached Unit	\$782.88 per Unit
Residential Property	Affordable Unit	\$0.00 per Unit
Commercial/Industrial Property	NA	\$0.00 per GFA

Each July 1, commencing July 1, 1998, the Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

b. Assigned Annual Special Tax for Existing Developed Property

Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to an Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

1. Assigned Annual Special Tax

The Assigned Annual Special Tax for Undeveloped Property shall be \$1,000 per acre of Acreage in Fiscal Year 1997-98. On each July 1, commencing July 1, 1998, the Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

a. Zone A Assigned Annual Special Tax

The Zone A Assigned Annual Special Tax for Undeveloped Property located in Zone A shall be \$5,000 per acre of Acreage in Fiscal Year 1997-98. On each July 1, commencing July 1, 1998, the Zone A Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX**

Commencing Fiscal Year 1997-98 and for each subsequent Fiscal Year, the Assistant Superintendent shall reasonably determine the Special Tax Requirement and the Undeveloped Special Tax Requirement. In addition, in any Fiscal Year in which an elementary school located within or financed by CFD No. 6 is opened, the Assistant Superintendent shall reasonably determine the Special Tax Requirement A.

The Annual Special Tax shall be levied as follows:

1. Special Tax Requirement

An Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

2. Undeveloped Special Tax Requirement

If the Undeveloped Special Tax Requirement is greater than \$0, an Annual Special Tax shall additionally be levied on every Assessor's Parcel of Undeveloped Property at the same amount per acre of Acreage as necessary to satisfy the Undeveloped Special Tax Requirement, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

3. Special Tax Requirement A

An Annual Special Tax shall additionally be levied on every Assessor's Parcel of Undeveloped Property located in Zone A at the same amount per acre of Acreage as necessary to satisfy the Special Tax Requirement A, up to the Zone A Assigned Annual Special Tax applicable to each such Assessor's Parcel.

**SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 6 with written notice of intent to prepay. Within thirty (30) days of receipt of such written notice, the Assistant Superintendent shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount.

1. Bond Proceeds Allocation

Prior to the calculation of any Prepayment Amount, a calculation shall be performed to determine the amount of Bond proceeds that are allocable to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid, if any. For purposes of this analysis, Bond proceeds shall equal the par amount of Bonds. For each series of Bonds, Bond proceeds of such series shall be allocated to each Assessor's Parcel in an amount equal to the Bond proceeds times the Prepayment Ratio applicable to such Assessor's Parcel for such series of Bonds. For each series of Bonds, an amount of Regularly Retired Principal shall also be allocated to each Assessor's Parcel, to be calculated pursuant to Section G.3.E. below. If, after such allocations, the amount of Bond proceeds allocated to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid less the amount of Regularly Retired Principal allocated to such Assessor's Parcel is less than the sum of all the Gross Prepayment Amounts applicable to such Assessor's Parcel pursuant to Section G.2., then the Prepayment Amount for such Assessor's Parcel shall be calculated pursuant to Section G.2. Otherwise, the Prepayment Amount shall be calculated pursuant to Section G.3.

2. **Prepayment Amount for Assessor's Parcel with Allocation of Bonds Less than Applicable Gross Prepayment Amounts**

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.2. shall be calculated by (i) counting all the Units of each Land Use Class applicable to such Assessor's Parcel, (ii) multiplying the sum of the Units for each Land Use Class for such Assessor's Parcel by the applicable Gross Prepayment Amount per Unit, and (iii) adding all the products derived from the immediately preceding step which are applicable to such Assessor's Parcel. This sum is the Prepayment Amount for the Assessor's Parcel. The Gross Prepayment Amounts for Calendar Year 1997 shall be determined by reference to Table 2 below.

TABLE 2
GROSS PREPAYMENT AMOUNT

Land Use Class	Unit Type	Gross Prepayment Amount 1997
Residential Property	Detached Unit	\$16,328.43 per Unit
Residential Property	Attached Unit	\$7,011.61 per Unit
Residential Property	Affordable Unit	\$0.00 per Unit
Commercial/Industrial Property	NA	\$0.00 per GFA

On each January 1, commencing January 1, 1998, the Gross Prepayment Amounts applicable to each Assessor's Parcel shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Calendar Year.

3. **Prepayment Amount for Assessor's Parcel with Allocation of Bonds Equal to or More than Applicable Gross Prepayment Amounts**

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.3. shall be the amount calculated as shown below.

	Bond proceeds allocated to Assessor's Parcel
plus	A. Redemption Premium
plus	B. Defeasance
plus	C. Prepayment Fees and Expenses
less	D. Reserve Fund Credit
less	E. Regularly Retired Principal
less	F. Partial Prepayment Credit
equals	Prepayment Amount

Detailed explanations of items A through F follow:

A. Redemption Premium

The Redemption Premium is calculated by multiplying (i) the principal amount of the Bonds to be redeemed with the proceeds of the Prepayment Amount by (ii) the applicable redemption premium, if any, on the Bonds to be redeemed.

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Bonds to be redeemed with the proceeds of the Prepayment Amount until the earliest call date of the Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be calculated reasonably by the Assistant Superintendent.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Assistant Superintendent.

D. Reserve Fund Credit

The Reserve Fund credit, if any, shall be calculated as the sum of (i) the reduction in the applicable reserve fund requirements resulting from the redemption of Bonds with the Prepayment Amount, plus (ii) the reduction in the applicable reserve fund requirements attributable to the allocable portion of regularly scheduled retirement of principal that has occurred, as well as any other allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts. The allocable portion of regularly scheduled retirement of principal that has occurred means the total regularly scheduled retirement of principal that has occurred with respect to each series of Bonds times the applicable Prepayment Ratio for each such series of Bonds. The allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts means the total principal retired not related to Prepayment Amounts or Partial Prepayment Amounts with respect to each series of Bonds times the applicable Prepayment Ratio for each such series of Bonds.

E. Regularly Retired Principal

The Regularly Retired Principal is the total regularly scheduled retirement of principal that has occurred with respect to each series of Bonds times the applicable Prepayment Ratio for each such series of Bonds.

F. Partial Prepayment Credit

Partial prepayments of the Annual Special Tax obligation occurring prior to the issuance of Bonds will be credited in full. Partial prepayments of the Annual Special Tax obligation occurring subsequent to the issuance of Bonds will be credited in an amount equal to the greatest amount of principal of the Bonds that could have been redeemed with the Partial Prepayment Amount(s), taking into account Redemption Premium, Defeasance, Prepayment Fees and Expenses, and Reserve Fund Credit, if any, but exclusive of restrictions limiting early redemption on the basis of dollar increments, i.e., the full amount of the Partial Prepayment Amount(s) will be taken into account in the calculation. The sum of all applicable partial prepayment credits is the Partial Prepayment Credit.

With respect to an Annual Special Tax obligation that has been prepaid, the Assistant Superintendent shall reasonably indicate in the records of CFD No. 6 that there has been a prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment of Annual Special Taxes, to indicate reasonably the prepayment of Annual Special Taxes and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property both prior to and after the proposed prepayment is at least 1.1 times annual debt service on all outstanding Bonds.

SECTION H

PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAX

At the time a Final Map is recorded for any Taxable Property, the owner filing said Final Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Map to prepay a portion of the applicable Annual Special Tax obligation, provided that the Final Map contains at least 15 Detached Units or 30 Attached Units. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of a Building Permit. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F.$$

These terms have the following meanings:

- PP = the Partial Prepayment Amount
P_G = the Prepayment Amount calculated according to Section G
F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (ii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Assistant Superintendent shall reasonably provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within thirty (30) days of the request and may reasonably charge a reasonable fee for providing this service.

With respect to an Annual Special Tax obligation that is partially prepaid, the Assistant Superintendent shall reasonably indicate in the records of CFD No. 6 that there has been a partial prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of Annual Special Taxes, to indicate reasonably the partial prepayment of Annual Special Taxes and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all outstanding Bonds.

SECTION I TERMINATION OF ANNUAL SPECIAL TAX

The Annual Special Tax shall be levied for a term of twenty-five (25) Fiscal Years after the last bond series is issued, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

SECTION J EXEMPTIONS

The Assistant Superintendent shall not levy a special tax on Assessor's Parcels owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code or on Assessor's Parcels within the boundaries of CFD No. 6 which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization. Notwithstanding the above, the Assistant Superintendent shall not levy a special tax on Assessor's Parcels owned by a homeowners' association, Assessor's Parcels with public or utility easements making impractical their use for purposes other than those set forth in the easements, and Assessor's Parcels identified entirely as open space on a Final Map.

SECTION K APPEALS

Any owner of an Assessor's Parcel claiming that the amount or application of the special tax is not correct may file a written notice of appeal with the Assistant Superintendent not later than one (1) calendar year after having paid the first installment of the special tax that is being disputed. The Assistant Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the special tax, and reasonably rule on the appeal. If the Assistant Superintendent's decision reasonably requires that the special tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION L MANNER OF COLLECTION

The One-Time Special Tax shall be collected on or before the date a Building Permit is issued, provided that any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit may be levied on such Assessor's Parcel in any following Fiscal Year. The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided that CFD No. 6 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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APPENDIX C

SUMMARY APPRAISAL REPORT

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SUMMARY APPRAISAL REPORT

COVERING

**Poway Unified School District
CFD No. 6 – Improvement Area A
(4S Ranch/Neighborhood Two)**

DATE OF VALUE:

October 23, 2002

SUBMITTED TO:

**Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3098**

DATE OF REPORT:

October 25, 2002

SUBMITTED BY:

**Stephen G. White, MAI
1370 N. Brea Blvd., Suite 205
Fullerton, CA 92835**

Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 • FULLERTON, CALIFORNIA 92635-4128
(714) 738-1595 • FAX (714) 738-4371

October 25, 2002

Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3098

Re: CFD No. 6 – Improvement Area A
(4S Ranch/Neighborhood Two)

Dear Ms. Burgoyne:

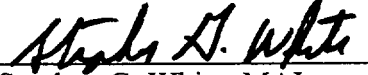
In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the taxable properties within Neighborhood Two of 4S Ranch. The taxable properties include the vacant land for 8 residential tracts (Planning Areas) which are planned for a total of 565 detached homes on lots ranging from $\pm 4,500$ s.f. to $\pm 16,000$ s.f. minimum. The land ranges from raw condition to near finished lots, plus there are 13 homes which are just now in the early stage of construction.

The purpose of this appraisal is to estimate the market value of the as is condition of each of the two merchant builder ownerships and the remaining ownership of the master developer comprising Neighborhood Two. This appraisal also reflects the proposed public bond financing, as well as the tax rates of $\pm 1.9\%$, including special taxes, to the homeowners. Based on the inspections of the properties and analysis of matters pertinent to value, the following conclusions of market value have been arrived at, subject to the Assumptions and Limiting Conditions, and as of October 23, 2002:

<u>Ownership</u>	<u>Market Value</u>
Centex Homes	\$ 6,640,000
Belle Rive Development Co.	\$13,530,000
4S Kelwood General Partnership	<u>\$52,650,000</u>
	\$72,820,000

The following is the balance of this 37-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, property data, exhibits, valuation and market data from which the value conclusions were derived.

Sincerely,


Stephen G. White, MAI
(State Certified General Real Estate
Appraiser No. AG 013311)

SGW:sw
Ref: 02054

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CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I have made a personal inspection of the property that is the subject of this report.
9. No one provided significant professional assistance to the person signing this report, other than data research by my associate, John Hockman.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.



Stephen G. White, MAI
(State Certified General Real Estate
Appraiser No. AG013311)

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal has been based upon the following assumptions and limiting conditions:

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies, if applicable, are assumed to be correct. Any plot plans or other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in the report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the property, but the value estimated in this

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

appraisal is based 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 such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field, if desired.

12. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
13. Possession of this report, or a copy thereof, does not carry with it the right of publication, unless otherwise authorized. It is understood and agreed that this report will be utilized in the Official Statement, as required for the bond issuance.
14. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in questions unless arrangements have previously been made.

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. Estimates of remaining land development costs and fees to get the subject properties from their as is condition to finished single family residential lots, as well as costs expended on homes under construction, have been obtained from the master developer and/or the merchant builder/owners. These costs are integral to the analysis of the value of the as is condition of the land and homes under construction, and have been relied upon in this appraisal as being reasonably accurate.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the aggregate market value of all of the taxable property located within Community Facilities District No. 6 – Improvement Area A (4S Ranch) of the Poway Unified School District. This Summary Appraisal Report is to be used as required in the bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this Complete Appraisal that all appropriate data considered pertinent in the valuation of the subject properties be collected, confirmed and reported in a Summary Appraisal Report, in conformance with the Uniform Standards of Professional Appraisal Practice. This has included an inspection of the subject properties and the surroundings; review of various maps and documents relating to the properties and the developments which are planned or currently underway; obtaining of pertinent property data on the subject properties; obtaining of comparable land and home sales from a variety of sources; and analysis of all of the data to the value conclusions.

DATE OF VALUE

The date of value for this appraisal is October 23, 2002.

PROPERTY RIGHTS APPRAISED

This appraisal is of the fee simple interest in the subject properties, subject to the special tax and assessment liens.

DEFINITION OF MARKET VALUE

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

DEFINITION OF FINISHED LOT

This term describes the condition of residential lots in a single-family subdivision for detached homes in which the lots are fully improved and ready for homes to be built. This reflects that the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.

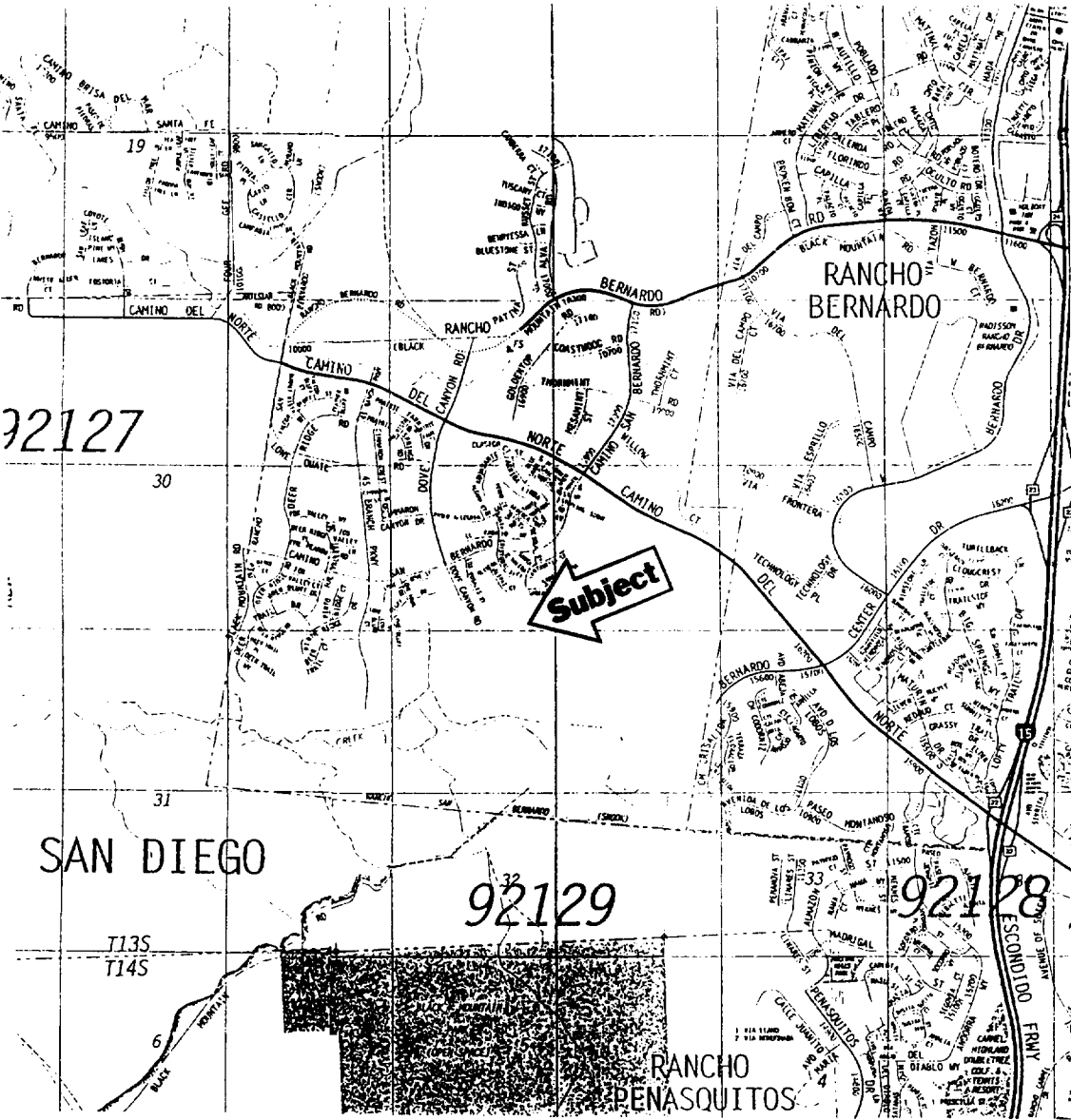
DEFINITION OF BLUE-TOP LOT

This term describes residential lots in a single-family subdivision for detached homes in which the lots and streets have been rough graded, and the offsite infrastructure of streets and utilities are completed to the tract, but not within the tract.

DEFINITION OF RAW LAND

In this case, the land is entitled for development, but it has not been graded from its raw condition, and still lacks the necessary infrastructure of streets, utilities, etc.

LOCATION MAP



GENERAL PROPERTY DATA

LOCATION

The map on the opposite page indicates the approximate location of the subject area, with Neighborhood Two being located south of Camino Del Norte and extending from west of 4S Ranch Parkway to east of Dove Canyon Rd. This location is in a newly developing area in unincorporated San Diego County area, just under 2 miles west of the 15 Freeway, but with a San Diego mailing address.

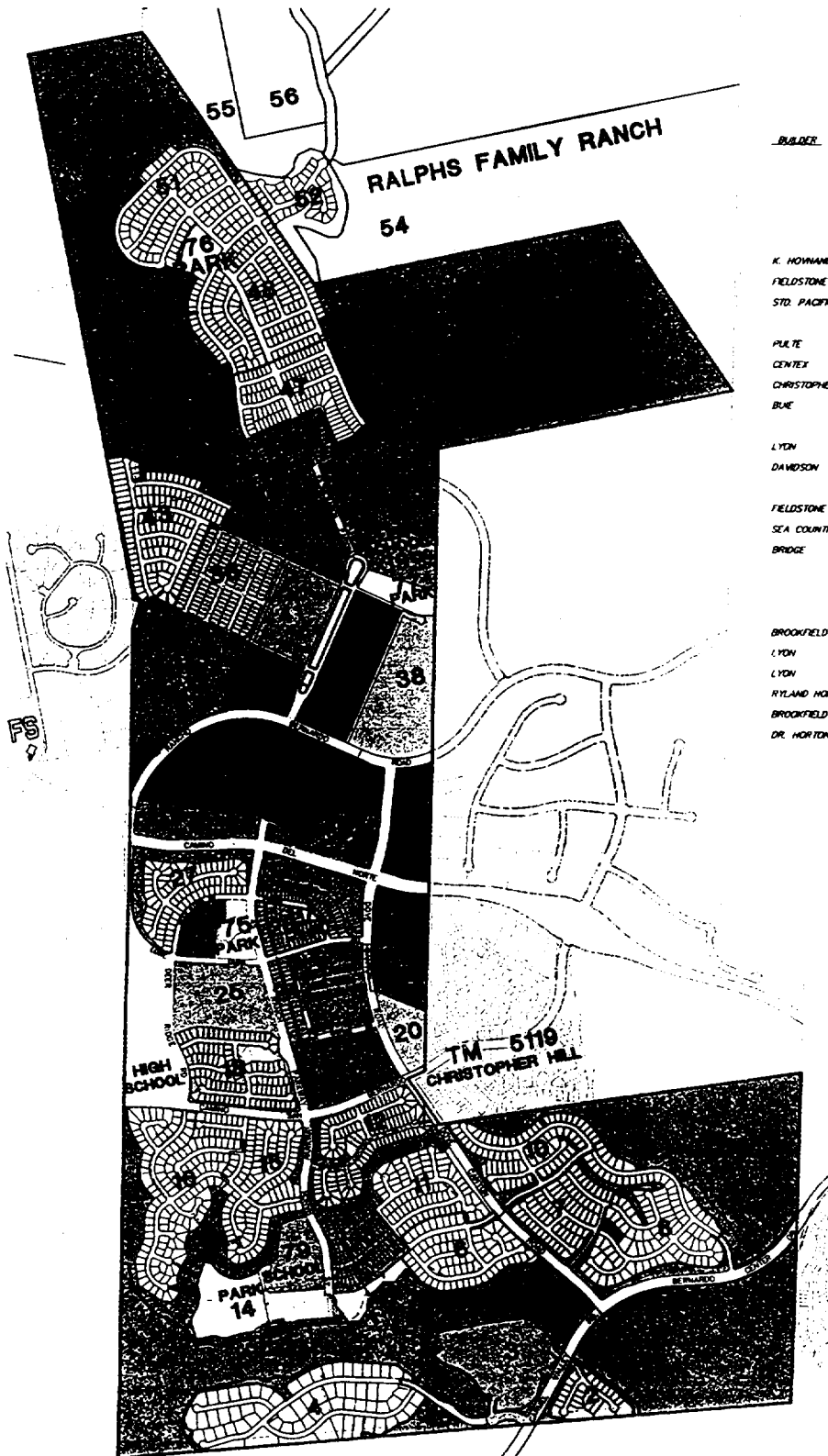
GENERAL AREA DESCRIPTION

The immediate subject area is located within unincorporated San Diego County area, with the most northerly end of the City of San Diego being located nearby to the west, south and east. The subject area is located about 23 miles northerly of downtown San Diego, and about 10 miles inland of the ocean at Encinitas and Solana Beach.

The area to the north of 4S Ranch is mostly undeveloped for some distance, with Lake Hodges being located several miles to the north and the City of Escondido farther to the north and northeast. Nearby to the east/northeast is the community of Rancho Bernardo within the City of San Diego, and nearby to the southeast is the community of Rancho Penasquitos within the City of San Diego. Farther to the east is the City of Poway.

To the south of 4S Ranch is a large area of undeveloped land, sloping up into a hilly area. This area is within the City of San Diego, and includes the large open space area of Black Mountain Ranch and Black Mountain Park. Farther south is more of the community of Rancho Penasquitos. To the west is mostly undeveloped land extending for some distance into the Santa Fe Valley, including a portion within the City of San Diego and portions within unincorporated San Diego County. The unincorporated communities of Rancho Santa Fe and Fairbanks Ranch are located about 3 miles westerly of the subject area.

The subject area is a desirable residential area due to its relatively close-in location to central San Diego, as well as the good freeway proximity. The subject area also has good arterial road access by Camino Del Norte and Rancho Bernardo Rd., both of which have interchanges at the freeway. Retail/shopping facilities and schools are currently available nearby in Rancho Bernardo, and there will be future commercial development as well as two elementary schools, a middle school and a high school within 4S Ranch. There are also nearby recreational facilities at Lake Hodges and Lake Poway, various nearby golf courses, and ocean recreation within 10 miles.



BUILDER	PLANNING AREA NUMBER	TRACT/USE	MIN LOT SIZE/ZONE	NO DU'S
	1	OPEN SPACE		-
	2	SFD	60 x 105	24
	3	MIDDLE SCHOOL		-
	4	SFD	110 x 120	66
	5	OPEN SPACE		-
K. HOVHANNIAN	6	SFD	70 x 105	73
FIELDSTONE	7	SFD	60 x 105	65
STD. PACIFIC	8	SFD	85 x 125	105
	9	OPEN SPACE		-
PLUTE	10	SFD	60 x 105	75
CENTEX	11	SFD	60 x 105	75
CHRISTOPHER	12	5067-6	50 x 100	108
BUE	13	SFD	45 x 100	82
	14	PARK		-
LYON	15	5067-5	60 x 100	123
DAVIDSON	16	5067-4	70 x 100	126
	17	PUMP STATION		-
FIELDSTONE	18	5067-3	56 x 90	103
SEA COUNTRY	19	5265	RV-9	133
BRIDGE	20	MF LOW	C34	170
	21	WATER RECLAMATION PLANT		-
	22	COMMERCIAL	C36	-
	23	RECLAIMED WATER RESERVOIR		-
BROOKFIELD HOMES	24	5067-8	50 x 103	34
LYON	25	5256	RV-12	202
LYON	26	5258	RV-9	54
HYLAND HOMES	27	5067-1	60 x 100	75
BROOKFIELD HOMES	28	5067-7	50 x 103	46
DR. HORTON	29	5067-2	42 x 100	80
	30	COMMERCIAL	C35	-
	31	COMMERCIAL	C35	-
	32	COMMERCIAL	C34/MF18	500
	33	COMMERCIAL	C35	-
	34	SFD	45 x 90	133
	35	MF	RM-29	280
	36	SFD	50 x 100	127
	37	MF	RM-29	227
	38	MF	RV-14	350
	39	ELEMENTARY SCHOOL		-
	40	MF	RV-18	270
	41	SFD	RV-12	160
	42	SFD	42 x 100	96
	43	SFD	60 x 105	131
	44	SFD	50 x 103	60
	45	SFD	50 x 103	81
	46	SFD	45 x 90	101
	47	SFD	50 x 100	112
	48	SFD	60 x 100	175
	49	OPEN SPACE		-
	50	WATER TANK		-
	51	SFD	70 x 100	114
	52	SFD (RALPHS)		25
	53	OPEN SPACE		-
	54	PARK		-
	55	PARK		-
	56	PARK		-
	57	PARK		-
	58	WATER TANK		-
	59	SCHOOL		-
	60	OPEN SPACE/DETENTION BASIN		-
	61	RALPHS FAMILY RANCH		11

TOTAL 4715

MAY 17, 2002

NOLTE
BEYOND ENGINEERING
11800 AVENUE OF SCIENCE, SUITE 301 SAN DIEGO, CA 92130
619.265.8888 FAX 619.265.8888 WWW.NOLTE.COM



4S RANCH
MASTER DEVELOPMENT PLAN

DESCRIPTION OF 4S RANCH

Overview

4S Ranch is a mixed-use master planned community that contains a total of $\pm 2,900$ acres. The current planning is for a total of $\pm 4,500$ dwelling units, consisting of mostly single family detached homes, but also including some attached homes, apartments and senior housing. There will also be a 53-acre mixed-use district called 4S Commons which will be patterned after a town square or downtown area, and will include shops, restaurants, medical and professional offices, an entertainment complex with movie theaters, cultural and day care facilities, and a community green.

Community amenities will include four schools (two elementary schools, a middle school and a high school), a fire station, a sheriff substation, a library, 1,600 acres of permanent open space/wildlife habitat, a 25-acre community park with Little League and soccer fields, three neighborhood parks, pocket parks and public greens, and more than 10 miles of hiking and biking trails winding throughout the community. The trails will connect to the pedestrian promenades along 4S Ranch Parkway, providing walking or biking access from throughout the community to the 4S Commons. There will also be a community-wide intranet system.

4S Ranch was granted Specific Plan approval in 1999, and the first residential land sales to builders closed in December 1999, located in Neighborhood One. Construction of the first homes commenced shortly thereafter, and there are now 10 different tracts of homes in Neighborhood One which are under construction or recently completed. Residential land sales are now taking place in Neighborhood Two, and construction is just underway on the first two tracts of homes.

Streets and Access

The primary access to the developing area of 4S Ranch (Neighborhoods One and Two) is by Camino Del Norte, which is a primary road extending northwesterly to this area from the 15 Freeway. Access into Neighborhoods One and Two is by 4S Ranch Parkway and Dove Canyon Rd. which extend southerly from Camino Del Norte. 4S Ranch Parkway currently extends south from Camino Del Norte to Dove Creek Rd., but will ultimately extend north-south through the overall community providing access to all Neighborhoods. Dove Canyon Rd. currently extends south from Camino Del Norte to the north end of Neighborhood Two, but it will ultimately extend north to Rancho Bernardo Rd. and south to Carmel Valley Rd./Bernardo Center Dr.

Camino San Bernardo extends east-west through the southerly portion of Neighborhood One, and extends east/northeast to Rancho Bernardo Rd. Other collector streets are completed within Neighborhood One, but are not yet completed within Neighborhood Two.

DESCRIPTION OF 4S RANCH, Continuing

Utilities

The utilities for the community are provided as follows:

Water & Sewer:	Olivenhain Municipal Water District
Gas & Electric:	San Diego Gas & Electric
Telephone:	Pacific Bell
Cable:	Cox Communication and Time Warner

Zoning/Approvals

As previously indicated, 4S Ranch was granted Specific Plan approval in 1999. This approval provides for the zoning and necessary approvals for the planned residential development of the subject properties within Neighborhoods One through Four. In addition, Neighborhood One has all recorded tract maps, and Neighborhood Two has recorded tract maps on Planning Areas 6, 11 and 13, and approved tentative tract maps on the other Planning Areas.

Drainage/Flood Hazard

Drainage is and will be within master-planned facilities throughout the community. Neighborhood One is generally above grade of Camino Del Norte, and then gradually sloping down to the south to Neighborhood Two. The north part of Neighborhood Two generally slopes and terraces down to the south to the open space/valley area of Lusardi Creek, then the south part slopes up into the hilly area to the south. Neighborhoods Three and Four have a gradual slope up to the north. None of the developable areas in 4S Ranch are within the floodplain.

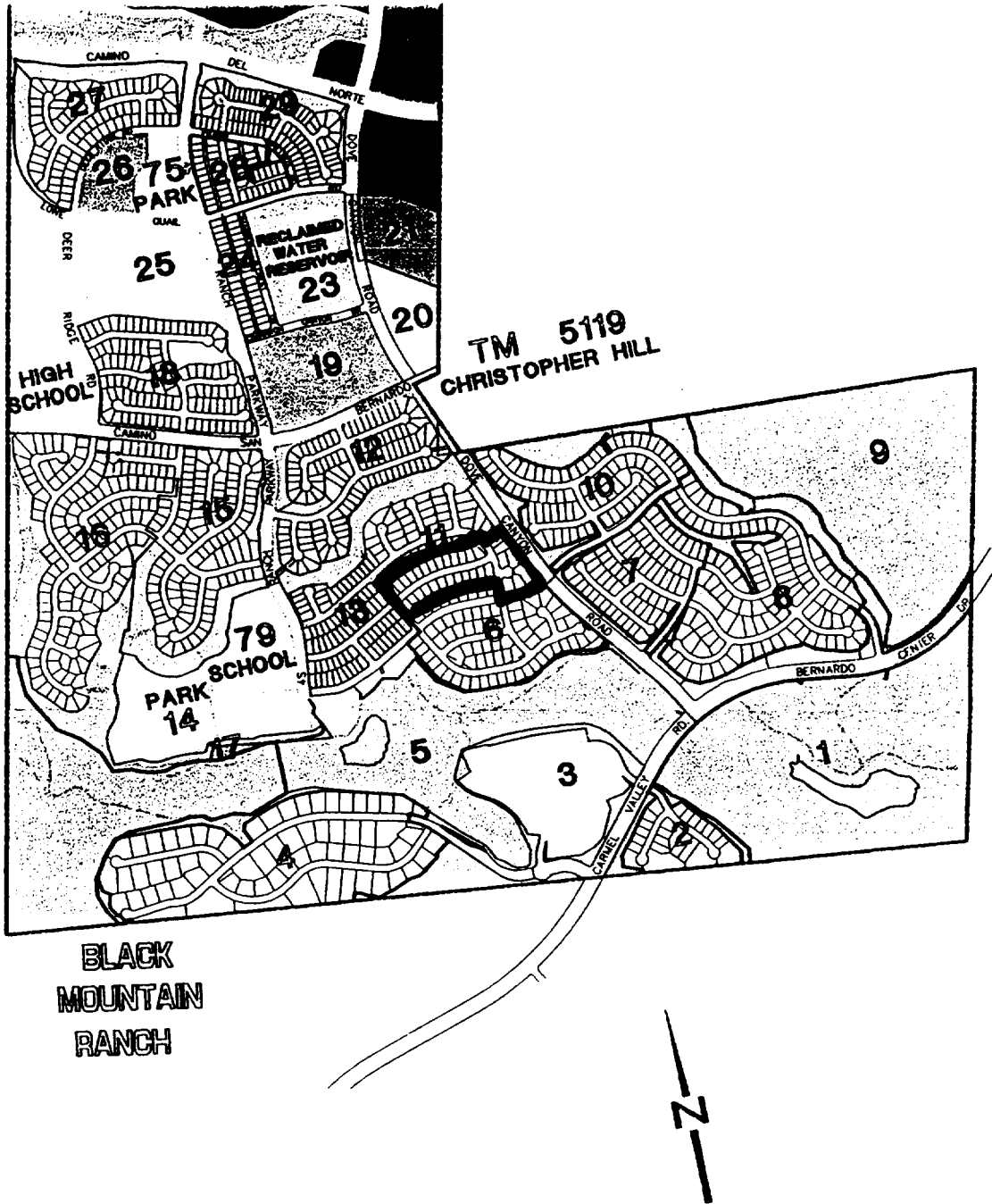
Soil/Geologic Conditions

This appraisal has assumed that all necessary grading and compacting has been and will be properly completed by the master developer, and is being properly completed by the two current merchant builders, and that there are no abnormal soil or geologic conditions that would affect the development of the land as planned.

Environmental Conditions

This appraisal has assumed that all necessary environmental permits and approvals have been obtained for development of the land as planned. It has also been assumed that there are no other environmental conditions, including endangered species or significant habitat, watercourses or wetlands that would have a negative effect on the planned development.

MAP OF CENTEX HOMES



CENTEX HOMES OWNERSHIP

PROPERTY DATA

Location

This tract is located along the west side of Dove Canyon Rd., extending north from Dove Creek Rd.

Record Owner/Ownership History

Centex Homes closed on the purchase of the first takedown of 32 lots on October 23, 2002 from 4S Kelwood General Partnership. The price was \$6,492,864 or \$202,902 per lot for the near finished condition. The second takedown comprising the remaining 43 lots in this tract is due to close within 9 months.

Legal Description

The 32 lots comprising the first takedown by Centex Homes consist of Lots 114 to 120 and 133 to 157 of County of San Diego Tract No. 5216-1, Map No. 14431.

Assessor Data

This tract comprises small portions of Assessor Parcel Nos. 312-150-02 and 678-242-16 which contain a total of ±380 acres. The current assessed values do not reflect the subdivision and land development work that has taken place thus far. The tax rate area is 64-105, with a current base tax rate of ±1.01%, but the projected total tax rate to future homeowners is ±1.9% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 75 lots, but as noted above, the Centex Homes ownership is only the first takedown of 32 lots thus far. The minimum lot size is approximately 60' x 105' or 6,300 s.f.

Existing and Proposed Development

The lots are planned to be developed with a tract of homes called Canyon Ridge at 4S Ranch. As of the date of value, the three model homes have slabs completed and framing underway on one, and foundations are underway on 7 production homes. The balance of the lots are vacant and in a semi-finished condition, with the in-tract streets not yet paved and in-tract landscaping yet to be installed.

There will be three floor plans which are described as follows:

Residence 1: 3,172 s.f., two story, with 4 bedrooms, 3½ baths, 2 living areas, 2 dining areas and a 2-car garage.

PROPERTY DATA, Continuing

Residence 2: 3,411 s.f., two story, with 3 bedrooms, 3 baths, 4 living areas, 2 dining areas, and a 2-car garage.

Residence 3: 3,750 s.f., two story, with 4 bedrooms, 2½ baths, 4 living areas, 2 dining areas, and a 2-car garage.

The base home pricing is currently projected to be \$511,900 for Residence 1, \$531,900 for Residence 2, and \$559,900 for Residence 3. The unit mix is to be 20 of the Residence 1, 27 of the Residence 2 and 28 of the Residence 3. As to the timing of development, it is projected that 17 building permits will be pulled in the 4th quarter of this year (models and Phase 1), 24 permits in the 1st quarter of 2003, 14 permits in the 2nd quarter of 2003, 13 permits in the 3rd quarter of 2003, and 7 permits in the 4th quarter of 2003.

Highest and Best Use

The term highest and best use is defined as that use which is reasonable and probable, and supports the highest present value of the land or improvements, also described as the most profitable use which is legal, physically possible and financially feasible. The highest and best use is concluded to be for continued development of the planned tract of homes. This use is financially feasible as evidenced by the strong demand for new homes in this general area.

VALUATION

Method of Analysis

The Sales Comparison Approach is used to estimate the value of the subject lots, as if in a finished condition. This approach considers recent sales of residential land or bulk lots from the general area in comparison to the subject property. Then, a deduction is made for the estimated remaining costs and fees to Centex Homes to get the lots from as is condition to finished lots. It is noted that some of the remaining in-tract land improvements, such as paving the in-tract streets, will be done by the master developer and are not a cost deduction to Centex Homes. Lastly, an additional allocation is made to the value contribution by the homes which are currently under construction.

Analysis of Finished Lot Value

A search was made in this general area for recent sales of similar residential land/bulk single-family lots. The pertinent units or measures of comparison to the subject are on the basis of price per finished lot and/or on the basis of a finished lot ratio (ratio of finished lot cost to average actual or projected home price). A detailed tabulation of the sales data is in the Addenda section at the end of this report. The following discussion and analysis references the sales data in that tabulation.

VALUATION, Continuing

Sale Nos. 1 through 6 comprise land sales located in Neighborhood One of 4S Ranch. Sale Nos. 1 and 2 consist of much smaller lots, which were planned for much smaller and lower priced homes than the potential for the subject. In addition, the sale prices were negotiated at least several years ago. Thus, the indications at \$150,000 and \$155,000 per finished lot support far lower limits for the subject.

Sale No. 3 consists of 5,000 s.f. minimum lots located adjacent to the north and terraced well above the subject. Many of these lots are much larger than 5,000 s.f., up to $\pm 10,000$ s.f., and many of the lots have good views. This at least partially explains the relatively high price of \$230,000 per finished lot for 5,000 s.f. minimum lots from a sale in July 2001. It is also evident that this sale indicates the highest finished lot ratio for all the 4S Ranch sales at 46%. In comparison to the subject, while the minimum lot sizes are smaller, the overall lot sizes tend to be similar or larger, the views are far superior to the minimal view potential to the subject lots, and the tax rate is slightly lower. Overall, the indication at \$230,000 per finished lot supports a far upper limit for the subject.

Sale No. 4 consists of 5,250 s.f. minimum lots with no view potential, and the price was negotiated several years ago. The potential home price for these lots had been projected at an average of $\pm \$450,000$, but the current pricing is at least 15% higher. Considering the slightly superior tax rate of this sale, but far more than offset by upward adjustments due to the much smaller lots, the slightly inferior location and time or date of sale, the indication at \$172,500 per finished lot supports a far lower limit for the subject.

Sale No. 5 consists of 6,000 s.f. minimum lots, fairly similar to the subject, but with many of the lots being larger and up to $\pm 11,000$ s.f. in size, and many of the lots having good views. The original projected pricing for the homes was similar to the current projected pricing for homes on the subject lots, but the current pricing is over 10% higher. Overall, these lots are superior to the subject due to the sizes, the views and the lower tax rate. These factors are offsetting to an upward time adjustment, thus the indication at \$218,000 per finished lot is a close indication for the subject.

Sale No. 6 consists of the largest lots in Neighborhood One, or 7,000 s.f. minimum size, with various of the lots ranging up to $\pm 10,000$ s.f. Many of these lots also have good views to the south or west. The original projected pricing for the homes was well above the current projected pricing for homes on the subject lots, and the current actual pricing has increased by $\pm 15-25\%$. Overall, these lots are far superior to the subject by reason of the larger sizes, superior views and lower tax rate. These factors are far more than offsetting to an upward time adjustment, resulting in a firm upper limit for the subject at \$231,000 per finished lot.

Sale Nos. 7 through 12 comprise the closed and pending land sales in Neighborhood Two of 4S Ranch, being the subject properties in this appraisal. Sale No. 9

VALUATION, Continuing

represents the sale of the subject property based on \$219,000 per finished lot, with the first takedown having closed and the second takedown being a current escrow.

Sale No. 7 consists of the Belle Rive Development Co. ownership, located adjacent to the west of the subject. These are much smaller lots than the subject, and the price was negotiated at least 1½ years ago, thus the indication at \$169,500 per finished lot is a far lower limit for the subject.

Sale Nos. 8 and 10 consist of 6,300 s.f. minimum lots, similar to the subject, and located across Dove Canyon Rd. to the east. Reflecting the similar lot size but also based on the minor segmentation in planned size and pricing of homes, Sale No. 8 is planned for smaller and lower priced homes than on the subject, and the potential views will be minor. In contrast, Sale No. 10 is planned for slightly larger and higher priced homes than on the subject, with slightly greater view potential as well having a number of lots which back to open space. Overall, Sale No. 8 supports a firm lower limit for the subject at \$206,000 per finished lot and Sale No. 10 supports a close but firm upper limit for the subject at \$227,000 per finished lot.

Sale Nos. 11 and 12 are of larger lots than the subject, being 7,350 s.f. and 8,125 s.f. minimum size. Thus, the potential is for larger and higher priced homes, and the potential lot premiums for view and backing to open space is superior to the subject. Thus, the indications at \$230,000 and \$244,000 per finished lot are far upper limits for the subject.

Sale No. 13 is located in the project called Santa Monica, just to the west of the planned community of Santaluz, which is about 3 miles to the southwest of the subject. This location is considered to be at least slightly superior to the subject, and the lots are much larger at 10,000 s.f. minimum. Thus, the indication at \$290,000 per finished lot supports a far upper limit for the subject.

Sale No. 14 is located nearby to the south of Sale No. 13, and consists of relatively large lots at 15,000 s.f. Thus, this is far superior to the subject and supports a far upper limit for the subject at \$350,000 per finished lot.

Sale Nos. 15 and 16 are located within the planned community of Santaluz, which will include much rolling open space, golf course, community facilities including pool and tennis courts, etc. These were sales of larger lots at 7,000 s.f. and 8,120 s.f. minimum, and planned for much higher-priced homes than on the subject lots. Thus, the indications at \$275,000 and \$294,000 per finished lot support far upper limits for the subject.

Sale No. 17 is located in the area known as Torrey Del Mar, which is about 4½ miles southwesterly of the subject. These are smaller lots than the subject at 5,000 s.f. minimum, though the homes being built are similar in size to the subject and with

VALUATION, Continuing

higher projected pricing as of the date of the land sale. This reflects the superior location of this sale. Overall, a downward adjustment for location is more than offsetting to upward adjustments for lot size and date of sale, resulting in an upper limit for the subject at ±\$235,000 per finished lot.

Sale No. 18 is located about 5 miles southwesterly of the subject in Subarea III of Torrey Highlands, which is a large planned development area. The location is considered to be superior to the subject, but this is more than offset by the much smaller lots at 4,000 s.f. minimum, as well as the date of sale in March 2001. Overall, the price of \$208,000 per finished lot supports a far lower limit for the subject.

Sale No. 19 is located in Subarea IV of Torrey Highlands, about 4 to 5 miles southerly of the subject. These are ±5,000 s.f. minimum lots, with original home pricing that was projected to be higher than the current projected pricing for homes on the subject lots. This reflects the superior location of this sale on the subject lots, and is more than offsetting to the smaller lot sizes or an upward time adjustment. Overall, the price of \$251,000 per finished lot supports a firm upper limit for the subject.

Sale No. 20 consists of much smaller lots, 3,500 s.f. minimum, also located in Torrey Highlands Subarea IV. The much smaller lot size is far more than offsetting to the superior location and date of sale, thus resulting in a far lower limit for the subject at \$169,000 per finished lot.

Sale No. 21 is located in the southerly part of Torrey Highlands Subarea IV, and has good views to the north and west. While the 5,000 s.f. minimum size lots are much smaller than the subject, the location and view potential area are superior, resulting in a firm upper limit for the subject at \$240,000 per finished lot.

In summary, on the basis of price per finished lot, the sales data supports far lower limits from \$150,000 to \$169,000, closer but firm lower limits at \$206,000 and \$208,000, close indications at \$218,000 and \$219,000, close but firm upper limits at \$227,000 to \$231,000, and far upper limits from \$240,000 to over \$300,000.

On the basis of a finished lot ratio, the data indicates the overall range from 34% to 48%, and the 4S Ranch land sales indicate the range of 36-46%, but mostly 36-41%. I have considered a ratio of 39-41%, which results in the following:

$$\pm\$537,000 \times .39-.41 = \$209,400 \text{ to } \$220,200/\text{finished lot}$$

I have concluded that the current sale price of the subject lots which reflects \$219,000 per finished lot is supportable as current market value.

VALUATION, Continuing

Deduction for Remaining Costs/Fees

Information provided by the master developer (4S Kelwood/Newland Communities) is that the remaining costs and fees to Centex Homes to get the lots from the delivered condition to fully finished condition is approximately \$16,000 per lot. This includes the costs for sidewalks, driveway approaches, and landscaping along streets and slopes, plus certain fees for water, fire protection and drainage. For 32 lots, this indicates a total cost amount of \$512,000.

Allocation to 10 Homes Under Construction

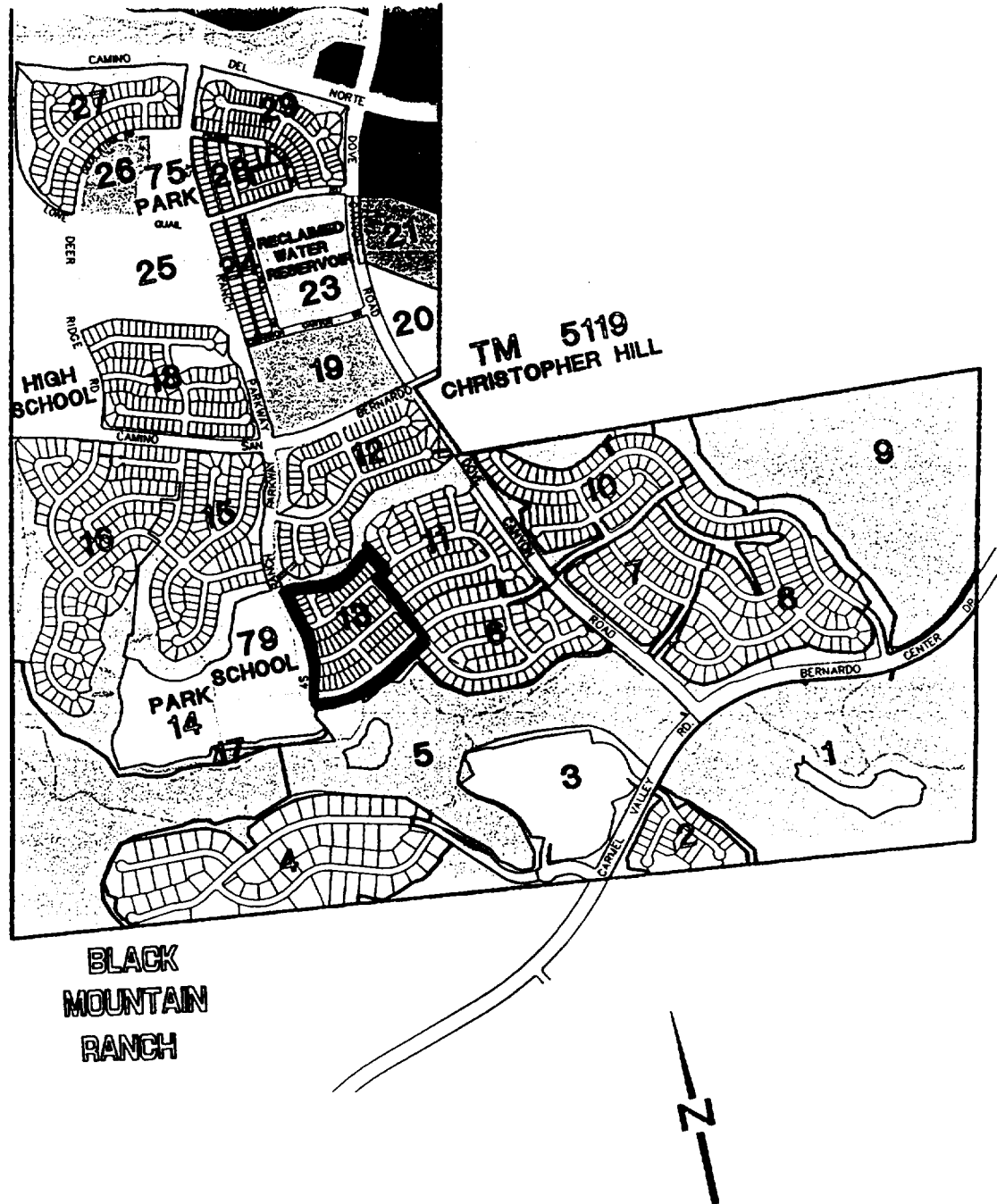
Information provided by Centex Homes is that the approximate costs expended, including fees and permits, have been ±\$25,000 per home for the 3 models and ±\$10,000 per home for the 7 production homes in the foundation stage. Thus, this reflects a total cost amount of \$145,000.

Conclusion of Value

Based on the foregoing, the total value indication for the Centex Homes ownership is calculated as follows:

If finished lot condition: 32 lots @ \$219,000/lot =	\$7,008,000
Less remaining costs/fees to get to finished lots:	- 512,000
Add costs expended on 10 homes under construction:	+ <u>145,000</u>
	\$6,641,000
Rounded	\$6,640,000

MAP OF BELLE RIVE



BELLE RIVE DEVELOPMENT CO. OWNERSHIP

PROPERTY DATA

Location

This tract is located along the east side of 4S Ranch Pkwy., extending north from Dove Creek Rd.

Record Owner/Ownership History

Belle Rive Development Company LLC (aka Buie Communities) closed on the purchase of these 82 lots on September 26, 2002 from 4S Kelwood General Partnership. The price was \$12,612,881 or \$153,816 per lot for the near finished condition.

Legal Description

The 82 lots comprising this ownership consist of Lots 1 to 82 of County of San Diego Tract No. 5216-1, Map No. 14431.

Assessor Data

This tract comprises a small portion of Assessor Parcel No. 312-150-02 which contains a total of 344.80 acres. The current assessed value of \$1,994,083 does not reflect the subdivision and land development work that has taken place thus far. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$, but the projected total tax rate to future homeowners is $\pm 1.9\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 82 lots. The minimum lot size is approximately 45' x 100' or $\pm 4,500$ s.f.

Existing and Proposed Development

The lots are planned to be developed with a tract of homes called Belle Rive at 4S Ranch. As of the date of value, the slabs for the 3 model homes have just been poured. The balance of the lots are vacant and in a semi-finished condition, with part of Cross Stone Dr. paved, but the other in-tract streets are not yet paved and in-tract landscaping is yet to be installed.

There will be three floor plans, with sizes of 2,264 s.f., 3,016 s.f. and 3,047 s.f., and the projected base prices are \$430,000, \$460,000 and \$470,000. The projected average lot premiums are just under \$4,000. The unit mix is to be 26 of the Plan 1, 27 of the Plan 2 and 29 of the Plan 3.

PROPERTY DATA, Continuing

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes. This use is financially feasible as evidenced by the strong demand for new homes in this general area.

VALUATION

Method of Analysis

This is the same as discussed for the Centex Homes ownership.

Analysis of Finished Lot Value

Based on the discussion in the valuation of the Centex Homes ownership, and considering the size of these subject lots together with the projected home pricing, on a finished lot basis the sales data supports lower limits at \$150,000 to \$155,000, closer indications at \$169,000 to \$172,500, and far upper limits at \$206,000 and above. Considering the finished lot ratio of 39-41%, the following value range results:

$$\pm \$454,000 \times .39-.41 = \$177,100 \text{ to } \$186,100/\text{finished lot}$$

It is noted that the recent closed sale price which reflects \$169,500 per finished lot was negotiated at least 1½ years ago, before all of the other sales in Neighborhood Two were negotiated. Thus, the price is conservative at current date, as evidenced by the relatively low finished lot ratio of 37% indicated by the sale price. I have concluded on a supportable value for the subject property based on \$180,000 per finished lot.

Deduction for Remaining Costs/Fees

Information provided by the master developer (4S Kelwood/Newland Communities) is that the remaining costs and fees to Belle Rive Development Co. to get the lots from the delivered condition to fully finished condition is approximately \$15,500 per lot. This includes the costs as previously noted for the Centex Homes ownership. For the 82 lots, this indicates a total cost amount of \$1,271,000.

Allocation to 3 Homes Under Construction

Information provided by Belle Rive Development Co. (Buie Communities) is that the approximate costs expended thus far on the 3 models is a total of \$45,000.

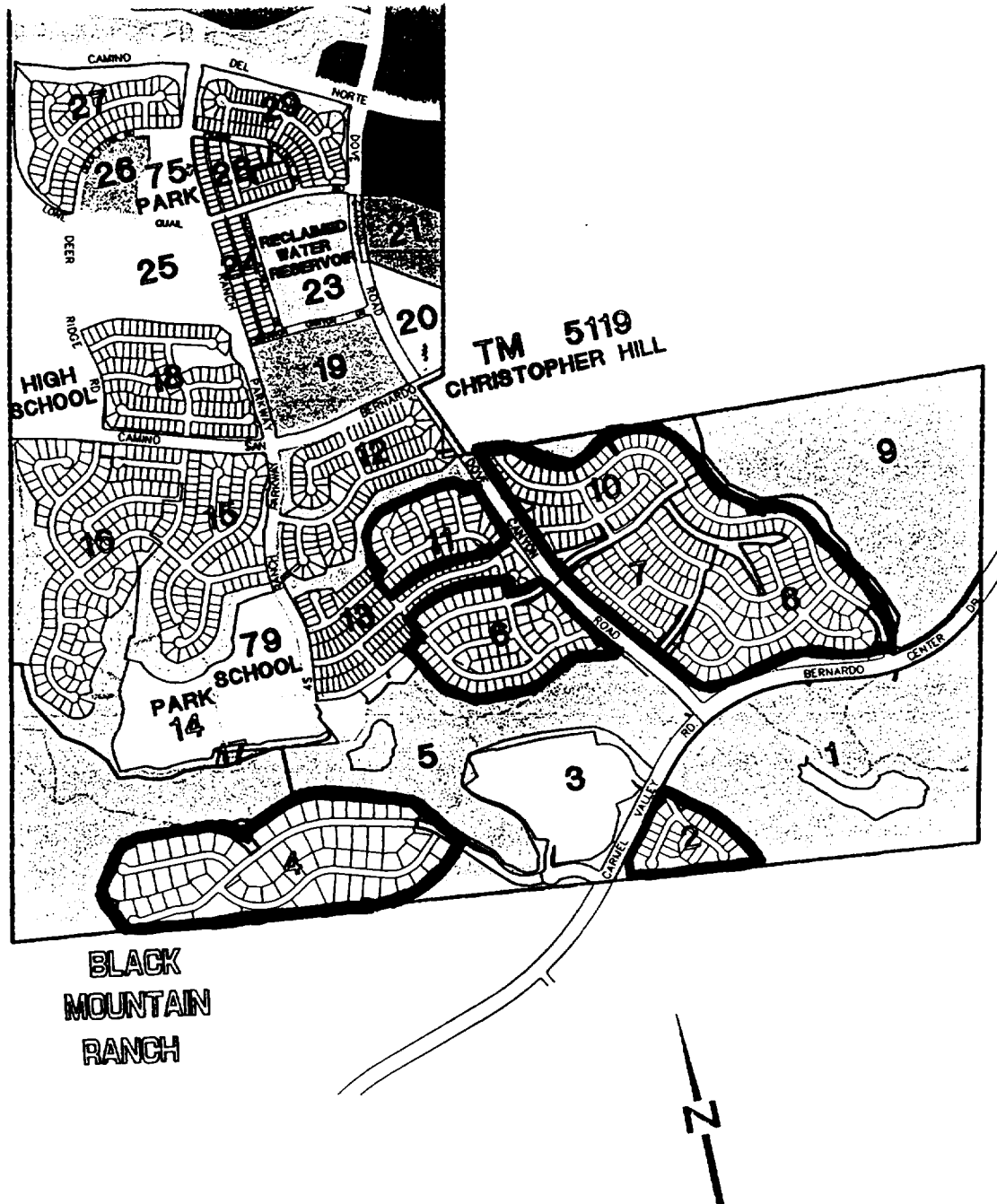
VALUATION, Continuing

Conclusion of Value

Based on the foregoing, the total value indication for the Belle Rive Development Co. ownership is calculated as follows:

If finished lot condition: 82 lots @ \$180,000/lot =	\$14,760,000
Less remaining costs/fees to get to finished lots:	- 1,271,000
Add costs expended on 10 homes under construction:	+ <u>45,000</u>
	\$13,534,000
Rounded	\$13,530,000

MAP OF 4S KELWOOD



4S KELWOOD OWNERSHIP

PROPERTY DATA

Location

This ownership comprises the balance of the residential land in Neighborhood Two, and is located in the center, south and east portions of Neighborhood Two.

Record Owner/Ownership History

All of this land is owned by 4S Kelwood General Partnership, and is part of the much larger bulk ownership which was acquired a number of years ago.

Planning Area/No. Lots/Lot Sizes/Legal Description

The 451 lots comprising this master developer ownership are shown as follows:

<u>Planning Area</u>	<u>No. Lots</u>	<u>Min. Size</u>	<u>Legal Description</u>
2	24	7,000 s.f.	Lots 496 to 519 of Tract No. 5216-3
4	66	16,000 s.f.	Lots 520 to 584 & 587 of Tract No. 5216-3
6	73	7,350 s.f.	Lots 158 to 230, Tract No. 5216-1 of Map No. 14431
7	65	6,300 s.f.	Lots 309 to 374 of Tract No. 5216-2
8	105	8,125 s.f.	Lots 375 to 479 of Tract No. 5216-2
10	75	6,300 s.f.	Lots 251 to 271, 282 to 298 of Tract No. 5216-2
11	43	6,300 s.f.	Lots 83 to 113, 121 to 132 of Tract No. 5216-1, Map No. 14431

451

Tract No. 5216-1 is a recorded map as Map No. 14431. Tract No. 5216-2 is an approved tentative tract map, and is due to record by the end of November or early December 2002. Tract No. 5216-3 is also an approved tentative tract map, and is due to record in April 2003.

Assessor Data

This ownership comprises portions of Assessor Parcel Nos. 312-141-07, 312-150-02 and 678-242-16, which contain a total of ± 442 acres including much open space. The current assessed values do not reflect the subdivision and land development work that has taken place thus far. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$, but the projected total tax rate to future homeowners is $\pm 1.9\%$ including the special taxes for the CFD.

Proposed Development

Of the 7 residential sites comprising this ownership, 5 are in escrow to merchant builders (1 of which is the second takedown to Centex Homes), and 2 have not yet

PROPERTY DATA, Continuing

been marketed for sale. The following tabulation indicates the builder for each site and the approximate size and pricing of homes which are planned:

<u>Planning Area</u>	<u>Builder</u>	<u>Planned Homes</u>
2	n/a	3,200, 3,600 & 3,900 s.f.; \$530,000-\$590,000
4	n/a	4,000, 4,600 & 5,400 s.f.; \$800,000-\$950,000
6	K. Hovnanian	4,144, 4,385 & 4,595 s.f.; \$620,000-\$660,000
7	Fieldstone Communities	2,803, 3,157 & 3,392 s.f.; \$476,000-\$528,000
8	Standard Pacific	3,175, 3,918, 3,802 & 3,800 s.f.; \$565,000-\$610,000
10	Pulte Homes	3,390, 3,678 & 3,843 s.f.; \$565,000-\$600,000
11	Centex Homes	3,172, 3,411 & 3,750 s.f.; \$511,900-\$559,900

Current Status of Development

As previously discussed, Planning Area 11 consists of lots that are vacant and in a semi-finished condition, with the in-tract streets not yet paved. The adjacent Planning Area 6, also on the west side of Dove Canyon Rd., is partially graded to a blue top condition with installation of underground utilities underway, but part of the site is still being graded. The first takedown of lots is due to close in mid-November 2002.

Grading is well underway on Planning Areas 8, 10 and 11 which are located on the east side of Dove Canyon Rd., north of Bernardo Center Dr. This is a hilly, sloping area, and much grading remains to be completed to get to a blue top condition. Land sales in these three Planning Areas are due to close by year end, but the first takedown of Planning Area 8 may be delayed until January 2003.

Planning Areas 2 and 4 are still in a raw condition, and are located across the ravine from the balance of Neighborhood Two, or on the south side of Lusardi Creek. This land slopes up into the hills to the south, and Planning Area 4 will have some good views to the north. Grading on Planning Area 4 is due to begin by year end, and it is projected that the first takedown will close by December 2003. Planning Area 2 will be used as a balance site for grading operations, and is not due to be completed for sale to a builder until December 2004.

Dove Canyon Rd. is currently graded through most of Neighborhood Two and underground utilities are being installed. Carmel Valley Rd./Bernardo Center Dr. has yet to be constructed, as well as the other collector streets and in-tract streets.

Highest and Best Use

The highest and best use of the subject land is concluded to be for the continued residential development of 4S Ranch as planned.

VALUATION

Method of Analysis

This bulk ownership is valued by means of a discounted cash flow analysis. First, the land values of each of the 7 residential sites are estimated, based on the near finished lot condition at which the land will be delivered to the builders. Then, an absorption or rate of sell-off of the land is estimated, based primarily on the pending sales of 5 of the 7 sites, together with the projected sales dates for the other 2 sites. Next, the total costs and fees are estimated to get all of the land to the near finished lot condition from the existing raw, partially graded or near finished condition. Lastly, an appropriate discount rate is estimated, and the estimated cash flows are discount to a present value indication.

Finished Land Values

The finished lot values are first estimated for each of the 7 sites. Then a deduction is made for the estimated costs and fees to the merchant builder to get from the condition at which the land is delivered by the master developer (4S Kelwood) to finished lots. The discussion for each site is as follows:

Planning Area 2: Considering the minimum lot sizes of 7,000 s.f. and the targeted home pricing of \$530,000 to \$590,000, Sale Nos. 5, 8 and 9 would support firm lower limits at \$206,000 to \$219,000 per finished lot. Sale No. 10 consists of slightly smaller lots, but superior view potential and is planned for similar to slightly higher priced homes, thus it supports a close indication to close upper limit at \$227,000 per finished lot. Sale Nos. 6 and 11 support firm upper limits at \$230,000 and \$231,000 per finished lot considering the similar size to slightly larger lots and higher priced planned homes, and Sale No. 12 supports a far upper limit at \$244,000 per finished lot for the same reasons. Lastly, based on a finished lot ratio of 39-41%, the following indication results:

$$\pm \$560,000 \times .39-.41 = \$218,400 \text{ to } \$229,600/\text{finished lot}$$

4S Kelwood projects a value for these lots at \$230,000 per finished lot. However, based on the above, I have concluded on a value of \$224,000 per finished lot. Then, a deduction of $\pm \$20,000$ per lot is made for the costs to the merchant builder to get to finished lots, resulting in a value of \$204,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 4: These will be the largest lots in Neighborhood Two, at a minimum size of $\pm 16,000$ s.f. and up to over 20,000 s.f., with minimum pad sizes of $\pm 14,000$ s.f. and up to $\pm 20,000$ s.f. In addition, some lots will have views to the north and/or will back to open space. Thus, considering these lot sizes and the targeted home pricing of \$800,000 to \$950,000, Sale Nos. 6, 10, 11 and 12 support far lower limits at \$227,000 to \$244,000 per finished lot.

Sale No. 13 supports a closer but firm lower limit at \$290,000 per finished lot due to the smaller lots at 10,000 s.f. minimum, but the superior location. Sale No. 14 supports a close indication at $\pm \$350,000$ per finished lot due to the similar to slightly smaller lots at 15,000 s.f. minimum. Sale Nos. 15 and 16 support far lower limits at \$275,000 and \$294,000 per finished lot due to the much smaller lots as more than offsetting to the superior locations. Lastly, based on a finished lot ratio of 39-41%, the following indication results:

VALUATION, Continuing

$$\pm \$875,000 \times .39-.41 = \$341,250 \text{ to } \$358,750/\text{finished lot}$$

4S Kelwood projects that value of these lots at \$350,000 per finished lot. However, considering the greater risk due to being the largest lots and with the highest home pricing in the area, I have concluded on a value at the low end of the range, or \$340,000 per finished lot. Then, a deduction of $\pm \$35,000$ per lot is made for the costs to the merchant builder to get to finished lots, resulting in a value of \$305,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 6: The pending sale to K. Hovnanian is based on \$230,000 per finished lot, or an as is value of \$212,000 per lot reflecting costs of \$18,000 per lot to K. Hovnanian. Based on the projected home pricing as previously discussed, this price indicates a finished lot ratio of 36% which is at the low end of the overall range. Thus, I have concluded that the pending sale price is at the low end of a supportable range, but the conclusion is at \$212,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 7: The pending sale to Fieldstone Communities is based on \$206,000 per finished lot, or an as is value of \$188,000 per lot reflecting costs of \$18,000 per lot to Fieldstone Communities. Based on the projected home pricing as previously discussed, this price indicates a finished lot ratio of 41% which is at the upper end but within the most supportable range of 39-41% as previously discussed. Thus, I have concluded on a value of \$188,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 8: The pending sale to Standard Pacific is based on \$244,000 per finished lot, or an as is value of \$223,000 per lot reflecting costs of \$21,000 per lot to Standard Pacific. Based on the projected home pricing as previously discussed, this price indicates a finished lot ratio of 41% which again is at the upper end but within the most supportable range of 39-41% as previously discussed. Thus, I have concluded on a value of \$223,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 10: The pending sale to Pulte Homes is based on \$227,000 per finished lot, or an as is value of \$210,000 per lot reflecting costs of \$17,000 per lot to Pulte Homes. Based on the projected home pricing as previously discussed, this price indicates a finished lot ratio of 39% which is at the lower end but within the most supportable range of 39-41% as previously discussed. Thus, I have concluded on a value of \$210,000 per lot for the condition at which the lots will be delivered by the master developer.

Planning Area 11: The pending sale to Centex Homes is for the second takedown of lots in this tract. The conclusion is as previously discussed for the Centex Homes ownership, which is \$219,000 per finished or $\pm \$203,000$ per lot for the condition at which the lots will be delivered by the master developer.

Absorption/Rate of Land Sales

The projection of land sales by 4S Kelwood, based on the current escrows for Planning Areas 6, 7, 8, 10 and 11, and based on the targeted sale dates for Planning Areas 2 and 4 is as follows:

Planning Area 2: single takedown of 24 lots in 12/04

Planning Area 4: 1st takedown of 33 lots in 12/03; 2nd takedown of 33 lots in 12/04

Planning Area 6: 1st takedown of 37 lots in 11/02; 2nd takedown of 36 lots 9 mos. later

Planning Area 7: single takedown of 65 lots by 12/30/02

VALUATION, Continuing

Planning Area 8: 1st takedown of 34 lots by 12/30/02; 2nd takedown of 34 lots 12 mos. later;
3rd takedown of 37 lots 12 mos. later
Planning Area 10: 1st takedown of 38 lots by 12/30/02; 2nd takedown of 37 lots 9 mos. later
Planning Area 11: 2nd takedown of 43 lots in 7/03

The discounted cash flow analysis is done on a quarterly basis, commencing with the fourth quarter of 2002 and going through the fourth quarter of 2004, or a period of 9 quarters. I have considered the land sales to occur as noted above, other than the sales in Planning Areas 7, 8 and 10 have been pushed into the first quarter of 2003, though the second and third takedowns of Planning Area 8 are considered to occur in the fourth quarter of 2003 and the fourth quarter of 2004, respectively.

Project Costs

Information was provided by 4S Kelwood/Newland Communities as to the remaining costs to get the land in Neighborhood Two from its as is condition to the condition at which it is delivered to the merchant builders. The first category of costs is Direct Costs which includes the in-tract costs of grading, streets, utilities, etc. These costs include the remaining work to be done in Planning Areas 11 and 13 which have been sold to Centex Homes and Belle Rive Development Co. The total original Direct Costs amount was \$38,000,000, and approximately \$9,000,000 has been spent, leaving remaining costs of \$29,000,000.

The second category of costs is the General Costs which includes offsite improvements, major roadways, waste water treatment, pump stations, parks, etc. The total original General Costs amount was \$28,000,000, and approximately \$16,000,000 has been spent, leaving remaining costs of \$12,000,000.

Thus, the total remaining costs to the master developer are \$41,000,000. However, of this amount, approximately \$11,400,000 will be reimbursed by the CFD bond financing. Thus, the net amount of remaining costs to the master developer is \$29,600,000.

For purposes of this valuation, I have estimated that the bulk or $\pm 80\%$ of these costs would be spent evenly over the first five quarters of the cash flow, with the balance spent evenly over the final four quarters of the cash flow. Thus, the cost amounts are estimated at \$4,736,000 per quarter for the first five quarters, and \$1,480,000 per quarter for the last four quarters.

A second cost deduction is made for general overhead and marketing costs to the master developer. This cost factor is based on 5% of sales revenues.

VALUATION, Continuing

Discount Rate/Internal Rate of Return

This rate is inclusive of developer's profit, and also reflects the factors of the time value of money, and the risk of the projected cash flows inherent in this type of overall project. In my experience, this rate typically ranges from a minimum of 20% up to nearer 30%, depending on the status of the project, the location, etc.

The subject project has the positive factors of being Neighborhood Two of an ongoing development which has much completed construction and has been well received by the market, and also a desirable location with good potential for good future demand as well as increasing prices. In addition, some of the land in Neighborhood Two has already been sold and development is underway. Lastly, this is a relatively short cash flow period of only two years. Thus, I have concluded on a discount rate toward the low end of the range, or a rate of 22%.

Conclusion of Value

The third page in the following Addenda section is the discounted cash flow analysis which incorporates the foregoing factors. As indicated, this analysis results in a present value indication of \$52,652,487, which has been rounded to a market value conclusion of \$52,650,000.

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ADDENDA

TABULATION OF RESIDENTIAL LAND SALES

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
1	NEQ 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Garden Gate)	4S Kelwood Gen'l Partnership Sea Country Homes	12/01	133	2,700	1,916-2,271 s.f. ±\$360,000-\$400,000	\$113,534 \$150,000	±39%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate
2	SEQ 4S Ranch Pkwy & Camino Del Norte, Rancho Bernardo (Cedar Creek)	4S Kelwood Gen'l Partnership D.R. Horton	10/00	80	4,200	2,156-2,712 s.f. \$405,990-\$451,990	±\$140,000 \$155,000	36%	4S Ranch-Neighborhood One; sold as semi-finished lots; ±1.5% tax rate
3	SEQ 4S Ranch Pkwy & Camino San Bernardo (Legacy)	4S Kelwood Gen'l Partnership PLC/Christopher Homes	7/01	108	5,000	2,829-3,288 s.f. \$475,000-\$525,000	±\$215,000 \$230,000	46%	4S Ranch-Neighborhood One; sold as near finished lots; ±1.5% tax rate
4	NEQ & SEQ 4S Ranch Pkwy & Lone Quail Rd., Rancho Bernardo (Amherst)	4S Kelwood Gen'l Partnership Brookfield Homes	3/01 3/02	44 36 80	5,250	2,901-3,377 s.f. ±\$450,000 avg.	n/a \$160,000- \$172,500	36- 38%	4S Ranch-Neighborhood One; sold as near finished lots; ±1.5% tax rate
5	SWQ 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Providence)	4S Kelwood Gen'l Partnership William Lyon Homes	12/00 8/01	66 57	6,000	3,412-3,839 s.f. \$505,000-\$550,000	\$203,000 \$218,000	41%	4S Ranch-Neighborhood One; sold as near finished lots; ±1.5% tax rate
6	S/S Camino San Bernardo, opposite Deer Ridge Rd., Rancho Bernardo (Talavera)	4S Kelwood Gen'l Partnership Davidson Communities	1/01 12/01 6/02	67 34 25 126	7,000	3,541-4,053 s.f. Mid-\$500,000's to Low-\$600,000's	\$213,000 \$231,000	±39%	4S Ranch-Neighborhood One; sold as near finished lots; ±1.5% tax rate
7	NEQ 4S Ranch Pkwy & Dove Creek Rd., Rancho Bernardo (Belle Rive)	4S Kelwood Gen'l Partnership Belle Rive Dev. (Buie Comm.)	9/02	82	4,500	2,264-3,047 s.f. \$430,000-\$470,000	\$153,816 \$169,500	37%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
8	SEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Fieldstone Communities	Escrow	65	6,300	2,803-3,392 s.f. \$476,000-\$528,000	\$188,000 \$206,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
9	NWQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Canyon Ridge)	4S Kelwood Gen'l Partnership Centex Homes	10/02 Escrow	32 43 75	6,300	3,172-3,750 s.f. \$511,900-\$559,900	\$202,902 \$219,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
10	NEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Pulite Homes	Escrow "	38 37 75	6,300	3,390-3,843 s.f. \$565,000-\$600,000	\$210,000 \$227,000	39%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
11	SWQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership K. Hovnanian	Escrow "	37 36 73	7,350	4,144-4,595 s.f. \$620,000-\$660,000	\$212,000 \$230,000	36%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
12	NEQ Dove Canyon Rd. & Bernardo Center Dr., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Standard Pacific	Escrow " "	34 34 37 105	8,125	3,175-3,990 s.f. \$565,000-\$610,000	\$223,000 \$244,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate

TABULATION OF RESIDENTIAL LAND SALES, Continuing

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
13	NW/O west end of Camino De La Rosa, 1½ miles N/O Carmel Valley Rd., San Diego (The Collection at Santa Monica)	Western Pacific Housing Colrich Communities	1/02	66	10,000	±4,200-5,800 s.f. Low to high \$800,000's	\$211,159 \$290,000	±34%	Portion of Santa Monica project; to be delivered in blue-top condition; ±1.8% tax rate
14	W/O Camino De La Luna, ±1,500' S/O Camino De La Rosa, San Diego (Mirasol)	Hillside Ventures, et al Pardee Homes	5/02	52	15,000	n/a n/a	n/a ±\$350,000	n/a	Torrey Highlands Subarea I; raw land with approved tentative tract map
15	W/S Camino Ruiz, S/O Lazanja Dr., San Diego (Garden Homes)	SRHI LLC D.R. Horton	9/01	63	7,000	3,347-4,002 s.f. ±\$600,000-\$700,000	n/a \$275,000	42%	Santaluz master-planned community; many lots back to open space; ±1.8% tax rate
16	SWS Camino Ruiz at Caminito Lazanja, San Diego (n/a)	Santaluz LLC Davidson Communities	8/02	71	8,120	3,700-4,100 s.f. Mid to high \$700,000's	\$246,380 \$294,000	38%	Santaluz master-planned community; many lots back to open space; ±1.9% tax rate
17	Torrey Del Mar, S/O Carmel Valley Rd., San Diego (Terrazo)	Barratt American Cornerstone Communities	7/00	69	5,000	3,094-3,845 s.f. \$568,990-\$634,990	\$205,171 \$235,171	39%	Torrey Del Mar; mostly finished lots; ±1.6% tax rate
18	SWC & SEC Black Mountain Rd. & Rancho Santa Fe Farms, San Diego (Palma Real)	D.R. Horton Barratt American	3/01	162	4,000	1,600-2,100 s.f. \$395,000-\$470,000	\$123,457 \$208,000	48%	Torrey Highlands Subarea III; was raw land with approved tract maps; ±1.5-1.7% tax rate
19	S'ly corner Camino Ruiz & Torrey Meadows, San Diego (Cordero)	Greystone Homes Standard Pacific	7/01	78	5,005	2,800-3,400 s.f. Mid \$500,000's to Low \$600,000's	n/a \$251,000	43%	Torrey Highlands Subarea IV; were delivered as near finished lots; ±1.8% tax rate
20	NEC Torrey Santa Fe & Torrey Meadows, San Diego (San Lorenzo)	Obradovich Western Pacific Housing	1/02	107	3,500	1,642-2,250 s.f. \$377,500-\$477,500	n/a \$169,000	41%	Torrey Highlands Subarea IV; was part of larger parcel; raw, no approvals; CFD
21	NWC Torrey Santa Fe & Torrey Meadows, San Diego (Avalon Point)	McMillin Land Development Shea Homes	7/02	142	5,000	2,528-3,141 s.f. ±\$490,000-\$550,000	\$193,592 \$240,000	46%	Torrey Highlands Subarea IV; delivered as near finished lots; 1.8% tax rate

Note: Home pricing is the estimate as of the date of the land sale or the actual first phase pricing

Discounted Cash Flow Analysis: CFD No. 6-Imp. Area A (4S Ranch/Neighborhood Two)

Quarter	4Q-'02	1Q-'03	2Q-'03	3Q-'03	4Q-'03	1Q-'04	2Q-'04	3Q-'04	4Q-'04
REVENUES (Land Sales)									
Planning Area 2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,896,000
Planning Area 4	\$0	\$0	\$0	\$0	\$10,065,000	\$0	\$0	\$0	\$10,065,000
Planning Area 6	\$7,844,000	\$0	\$0	\$7,632,000	\$0	\$0	\$0	\$0	\$0
Planning Area 7	\$0	\$12,220,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Planning Area 8	\$0	\$7,582,000	\$0	\$0	\$7,582,000	\$0	\$0	\$0	\$8,251,000
Planning Area 10	\$0	\$7,980,000	\$0	\$0	\$7,770,000	\$0	\$0	\$0	\$0
Planning Area 11	\$0	\$0	\$0	\$8,729,000	\$0	\$0	\$0	\$0	\$0
Total	\$7,844,000	\$27,782,000	\$0	\$16,361,000	\$25,417,000	\$0	\$0	\$0	\$23,212,000
PROJECT COSTS									
Land Development	\$4,736,000	\$4,736,000	\$4,736,000	\$4,736,000	\$4,736,000	\$1,480,000	\$1,480,000	\$1,480,000	\$1,480,000
Overhead/Marketing 5%	\$392,200	\$1,389,100	\$0	\$818,050	\$1,270,850	\$0	\$0	\$0	\$1,160,600
Total	\$5,128,200	\$6,125,100	\$4,736,000	\$5,554,050	\$6,006,850	\$1,480,000	\$1,480,000	\$1,480,000	\$2,640,600
NET CASH FLOWS	\$2,715,800	\$21,656,900	-\$4,736,000	\$10,806,950	\$19,410,150	-\$1,480,000	-\$1,480,000	-\$1,480,000	\$20,571,400
DISCOUNT FACTOR	22%	0.947867	0.900901	0.858369	0.819672	0.784314	0.751880	0.722022	0.694444
PV OF CASH FLOWS	\$2,574,218	\$19,510,721	-\$4,065,236	\$8,858,156	\$15,223,647	-\$1,112,782	-\$1,068,592	-\$1,027,778	\$13,760,134
PRESENT VALUE	\$52,652,487								

**QUALIFICATIONS
OF
STEPHEN G. WHITE, MAI**

PROFESSIONAL EXPERIENCE

Real Estate Appraiser since 1976.

1983 through current date: Self-employed; office located at 1370 N. Brea Blvd., Suite 205, Fullerton, CA 92835 (Phone: 714-738-1595)

1976-1982: Employed by Cedric A. White, Jr., MAI, independent appraiser located in Anaheim.

Real estate appraisals have been completed on most types of properties for purposes of fair market value, leased fee value, leasehold value, easement value, partial acquisitions and severance damages.

PROFESSIONAL ORGANIZATIONS

Member, Appraisal Institute; MAI designation obtained 1985

Affiliate Member, Pacific West Association of Realtors

LICENSES

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 2002.

EDUCATION

B.A. Economics & Business, Westmont College, Santa Barbara (1976)

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional Appraisal Practice

Numerous seminars and continuing education on various appraisal subjects, including valuation of easements and leased fee interests, litigation, the money market and its impact on real estate, and standards of professional appraisal practice.

COURT/TESTIMONY EXPERIENCE

Qualified as an expert witness in the Superior Courts of Orange, Los Angeles, Riverside and San Bernardino Counties; also before the Assessment Appeals Board of Orange and Los Angeles Counties.

TYPES OF PROPERTY APPRAISED

Residential: vacant lots, acreage and subdivisions; single family residences, condominiums, townhomes and apartment complexes.

Commercial: vacant lots/acreage; office buildings, retail stores, shopping centers, restaurants, hotels and motels.

QUALIFICATIONS, Page 2

Industrial: vacant lots and acreage; warehouses, manufacturing buildings, R&D buildings, industrial parks, mini-warehouses.

Special Purpose: mobilehome parks, churches, automobile agencies, medical buildings, convalescent hospitals, easements, leased fee and leasehold interests.

CLIENT LIST

Corporations:

Aera Energy
British Pacific Properties
BSI Consultants
Crown Central Petroleum
Eastman Kodak Company
Firestone Building Materials
Foodmaker Realty Corp.
Greyhound Lines
Holiday Rambler Corp.
International Baking Co.
Johnson Controls
Kampgrounds of America
La Habra Products, Inc.

MCP Foods
Merrill Lynch Relocation
Orangeland RV Park
Pacific Scientific
Penhall International
Pic 'N Save Stores
Sargent-Fletcher Co.
Shell-Western E&P
Southern Distributors Corp.
Southern California Edison
The Home Depot
Tooley and Company
Wastewater Disposal Co.

Developers:

Brighton Homes
Citation Builders
Davison-Ferguson Investment Devel.
D.T. Smith Homes
Irvine Company
Kathryn Thompson Developers
Mark Taylor, Inc.

Mission Viejo Co.
Premier Homes
Presley Homes
Rockefeller & Associates
Taylor Woodrow Homes
Unocal Land & Development

Law Firms:

Baldikoski, Klotz & Dragonette
Best, Best & Krieger
Bowie, Arneson, Kadi, Wiles & Giannone
Bradshaw, John
Bye, Hatcher & Piggott
Callahan, McCune & Willis
Cooksey, Coleman & Howard
Hamilton & Samuels
Horgan, Rosen, Beckham & Coren
Kent, John
Kirkland & Ellis
Lathan & Watkins
McKee, Charles C.
Mosich, Nicholas J.
Long, David M.

Nossaman, Guthner, Knox & Elliott
Oliver, Barr & Vose
Ollestad, Freedman & Taylor
Palmieri, Tyler, Wiener, Wilhelm & Waldron
Paul, Hastings, Jonofsky & Walker
Piggott, George B.
Pothier, Rose
Rosenthal & Zimmerman
Rutan & Tucker
Sikora & Price, Inc.
Smith & Politiski
Williams, Gerold G.
Woodruff, Spradlin & Smart
Yates, Sealy M.

QUALIFICATIONS, Page 3

Financial Institutions:

Barclays Bank
Chino Valley Bank
Continental Bank
First Interstate Mortgage
Security Pacific Bank
Washington Square Capital

San Clemente Savings & Loan
United Calif. Savings Bank
National Credit Union Admin.
First Wisconsin Bank
Ahmanson Trust Company
Sunwest Bank

Cities:

City of Anaheim
City of Baldwin Park
City of Buena Park
City of Cypress
City of Duarte
City of La Habra
City of Laguna Beach
City of Mission Viejo

City of Orange
City of Placentia
City of Riverside
City of Santa Ana
City of Santa Fe Springs
City of Stanton
City of Tustin
City of Yorba Linda

Counties:

County of Orange

County of Riverside

Other Governmental:

Agua Mansa Industrial Growth Association
El Toro Water District
Federal Deposit Insurance Corporation (FDIC)
Kern County Employees Retirement Association

Metropolitan Water District
Orange County Water District
Trabuco Canyon Water District
U.S. Postal Service

School Districts:

Anaheim Union High School Dist.
Banning Unified School Dist.
Capistrano Unified School Dist.
Castaic Union School Dist.
Cypress School Dist.
Etiwanda School Dist.
Fullerton School Dist.
Garden Grove Unified School Dist.
Irvine Unified School Dist.
Lake Elsinore Unified School Dist.

Moreno Valley Unified School Dist.
Newhall School Dist.
Newport-Mesa Unified School Dist.
Placentia-Yorba Linda Unified Dist.
Poway Unified School Dist.
Rialto Unified School Dist.
Saddleback Unified School Dist.
Santa Ana Unified School Dist.
So. Org. Cnty Comm. College Dist.
Temple City School Dist.

Churches/Church Organizations:

Calvary Church, Santa Ana
Central Baptist Church, Pomona
Christian & Missionary Alliance Church, Santa Ana
Christian Church Foundation
Congregational Church, Fullerton

First Church of the Nazarene
Lutheran Church, Missouri Synod
Presbytery of Los Rancho
St. Mark's Lutheran Church, Hac. Hts.
Vineyard Christian Fellowship

Other:

Biola University
Cedars-Sinai Medical Center

Garden Grove Boys' Club
The Sheepfold

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following summary discussion of selected provisions of the Bond Indenture is made subject to all of the provisions of such document. 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 Bond Indenture, 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, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California.

“Actual Cost” or “Actual Costs” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“Additional School Facilities” means those Additional School Facilities (as such term is defined in the Supplement to Mitigation Agreement) consisting of and limited to a swimming pool and related improvements to be located at Rancho Bernardo High School.

“Additional School Facilities Account” shall mean the account by that name established in the Improvement Area A Improvement Fund pursuant to the Indenture.

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

“Administrative Expenses” means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Improvement Area A Special Taxes and preparing the annual Improvement Area A Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area A Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area A Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under the Indenture; the costs of the School District, the District or any designee thereof of complying with the arbitrage rebate requirements; the costs of the School District, the District, or any designee thereof of complying with School District, District or obligated person disclosure requirements associated with applicable federal or state securities laws and of the Act; the costs associated with preparing Improvement Area A Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area A Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area A Special Tax; and the costs of any credit enhancement obtained by the School District or the District. Administrative Expenses shall also include Delinquency Collection Expenses.

“Administrative Expense Requirement” means an annual amount equal to \$25,000.

“Affiliate” means any entity owned, controlled or under common ownership or control by or with, as applicable, a Property Owner and includes all general partners of any entity which is a partnership. Control shall mean ownership of fifty percent (50%) or more of the voting power of or ownership interest in the respective entity.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year, including from mandatory sinking fund payments.

“Appraisal” means an appraisal prepared by the Appraiser or an MAI appraiser who is also a state certified appraiser, as defined in California Business and Professions Code Section 11340(c) appointed and retained by the School District or the District. Such appraisal shall be substantially based upon the then applicable assumptions of and subject to the then applicable qualifications and limitations contained in the appraisal prepared by the Appraiser and dated October 25, 2002.

“Appraiser” means Stephen G. White, MAI.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area A Special Tax RMA.

“Associate Superintendent, Business Support Services” means the Associate Superintendent, Business Support Services of the School District, acting for and on behalf of the District.

“Authorized Representative” of the District means the Superintendent, Deputy Superintendent or Associate Superintendent, Business Support Services, acting on behalf of the District, or any other person designated by the Board of Education and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related to the Indenture.

“Average Annual Debt Service” means, as of the date of any calculation, the average annual debt service on the Bonds based upon a Bond Year during the current or any future Bond Year.

“Bond Counsel” means an attorney or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of the State.

“Bondowner” or “Owner”, or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee, representative or assign of any Outstanding Bond which shall at the time be registered.

“Bonds” means the \$18,000,000 Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 Special Tax Bonds, issued pursuant to the Indenture.

“Bond Service Fund” means the fund created and established pursuant to the Indenture.

“Bond Year” means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Delivery Date to September 1, 2003.

“Business Day” means a day that is not a Saturday or a Sunday or a day of the year on which banks in New York, New York and Los Angeles, California, or where the Principal Corporate Trust Office is located, are not required or authorized to remain open.

“Capitalized Interest Subaccount” means the account by that name established within the Bond Service Fund pursuant to the Indenture.

“Cash Deposit” means a deposit of good funds by a Property Owner with the Fiscal Agent in the applicable Stated Amount in lieu of depositing a Letter of Credit or Substitute Letter of Credit pursuant to the Supplement to Mitigation Agreement.

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

“Comptroller of the Currency” means the Comptroller of the Currency of the United States.

“Contributions” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Delinquency Collection Expenses” means those fees and expenses of the District incurred by or on behalf of the District in or related to the collection of delinquent Improvement Area A Special Taxes.

“Costs of Issuance” means, as to the Bonds, all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, legal fees, acceptance fees and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area A Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Improvement Area A Special Tax resulting from the delinquency in the payment of Improvement Area A Special Taxes due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

“Delivery Date” means the date on which the Bonds are issued and delivered to the initial purchaser thereof.

“Depository” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Bonds, or (b) the District discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the District.

“Deputy Superintendent” means the Deputy Superintendent of the School District, acting for and on behalf of the District.

“Discrete Component” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“District” means Community Facilities District No. 6 (4S Ranch) of the School District.

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

“Fiscal Agent” means State Street Bank and Trust Company of California, N.A., and any successor thereto.

“Fiscal Year” means the 12 month period beginning July 1 of each year and terminating on June 30 of the following year, or any other annual accounting period hereinafter selected and designated by the District as its fiscal year in accordance with applicable law.

“Government Obligations” means obligations described in Paragraph 1 of the definition of Permitted Investments.

“Gross Proceeds” has the meaning ascribed to such term in Section 148(f)(6) of the Code.

“Improvement Area A” means Improvement Area A of the District.

“Improvement Area A Improvement Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area A Special Tax” means the Special Tax authorized to be levied in Improvement Area A to finance the acquisition or construction of the Additional School Facilities and the Infrastructure Improvements pursuant to the Act and the Improvement Area A Special Tax RMA.

“Improvement Area A Special Tax Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area A Special Tax RMA” means the rate and method of apportionment of the Improvement Area A Special Tax approved at the special election held in Improvement Area A of the District on October 21, 2002, as may be modified from time to time in accordance with the Act.

“Improvement Area A Special Tax Revenues” means (a) the proceeds of the Improvement Area A Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

“Indenture” means this Bond Indenture, as amended or supplemented pursuant to the terms thereof.

“Independent Accountant” means any certified public accountant or firm of such certified public accountants appointed and paid by the District, and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District or the School District; and
3. is not an officer or employee of the District or the School District, but who may be regularly retained to make annual or other audits of the books of or reports to the School District or the District.

“Infrastructure Improvement” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Infrastructure Improvement Account” shall mean the account by that name established within the Improvement Area A Improvement Fund pursuant to the Indenture.

“Interest Account” means the account by that name established within the Bond Service Fund pursuant to the Indenture.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2003.

“Investment Agreement” means any investment satisfying the requirements of Paragraph 11 of the definition of Permitted Investments.

“Legislative Body” means the Board of Education of the School District, acting as the legislative body of the District.

“Letter of Credit” means a Letter of Credit issued pursuant to the Supplement to the Mitigation Agreement by a Letter of Credit Bank, or any reissuance or extension thereof, which Letter of Credit shall be in the Stated Amount therefor.

“Letter of Credit Bank” means the issuer from time to time of a Letter of Credit and the respective successors and assigns of the business thereof and any surviving, resulting or transferee banking association or corporation with or into which it may be consolidated or merged or to which it may transfer all of its banking business, provided that the short-term and long-term ratings of such entity are at least investment grade, such entity must have a minimum Moody’s long-term rating of “A” and short-term rating of “P-1,” as evidenced by proof provided by such Letter of Credit Bank to the District and the Fiscal Agent, or that such entity is otherwise acceptable to the District.

“Letter of Credit Fund” means the fund by that name established pursuant to the Indenture.

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

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

“Net Special Tax Revenues” means Improvement Area A Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the provisions of the Indenture;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms thereof; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture.

“Participant” means a member of or participant in the Depository.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

1.
 - A. Direct obligations (other than an obligation subject to variation in principal payment) of the United States of America ("United States Treasury Obligations");
 - B. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;
 - C. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or
 - D. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.
2. Federal Housing Administration debentures.
3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - A. Federal Home Loan Mortgage Corporation (FHLMC)
 - (1) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - (2) Senior Debt obligations
 - B. Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
 - (1) Consolidated system-wide bonds and notes
 - C. Federal Home Loan Banks (FHL Banks)
 - (1) Consolidated debt obligations
 - D. Federal National Mortgage Association (FNMA)
 - (1) Senior debt obligations
 - (2) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - E. Student Loan Marketing Association (SLMA)
 - (1) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
 - F. Financing Corporation (FICO)

(1) Debt obligations

G. Resolution Funding Corporation (REFCORP)

(1) Debt obligations

4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
6. Commercial paper (having original maturities of not more than 270 days rated "A-1" by S&P and "Prime-1" by Moody's.
7. Money market funds rated "AAM-1" or "AAM-G" by S&P, or better.
8. State Obligations, which means:
 - A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
 - B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by S&P and "Prime-1" by Moody's.
 - C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "Aa" or better by Moody's.
9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:
 - A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
 - C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public

accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

- D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
- E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
- F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or (3) any other entity rated "A" or better by S&P and Moody's, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);
- B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

Notwithstanding the above, collateral levels need not be as specified in "A" above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

- 11. Investment agreements with a domestic or foreign bank or corporation the long-term debt or financial strength of which, it or its guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's; provided that, by the terms of the investment agreement:

- A. the invested funds are **available** for withdrawal without penalty or premium, upon not more than seven days' **prior notice**; the District and the Fiscal Agent agree to 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 paid;
- B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;
- C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);
- D. the investment agreement shall provide that if during its term
 - (1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a Holder of the Collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and
 - (2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, within 10 days of the date of such withdrawal, suspension or reduction of the provider's rating, repay the principal of and accrued but unpaid interest on the investment;
- E. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is **required** to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a **perfected** first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the **Holder** of the Collateral is in possession);
- F. the investment agreement **must** 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 District or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or 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 repaid to the District or Fiscal Agent, as appropriate.

12. The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Fiscal Agent.

"Prepayments" means Improvement Area A Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area A Special Tax.

"Principal Account" means the account by such name established in the Bond Service Fund pursuant to the Indenture.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 633 W. 5th Street, 12th Floor, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

"Project Area" shall have the meaning given to such term in the Supplement to Mitigation Agreement.

"Property Owner" shall have the same meaning given the term "Owner" in the Supplement to Mitigation Agreement.

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

"Rebate Instructions" means the Rebate Instructions attached to the Indenture

"Record Date" means the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

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

"Regulations" means the regulations promulgated under the Internal Revenue Code of 1986, as amended.

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

"Reserve Requirement" means an amount initially equal to \$1,776,135.08 which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

"School District" means the Poway Unified School District.

"Special Tax Consultant" means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. Any such person or firm shall be appointed and paid by the District and who, or each of whom:

1. is in fact independent and not under **domination** of the District or the School District;
2. does not have any substantial interest, **direct** or indirect, in the District or the School District;
and
3. is not an officer or employee of the **District** or the School District, but who may be regularly retained by the School District or other community facilities districts formed by the School District to administer the **levy** of special taxes within such community facilities districts.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Rating Services, its successors and assigns.

“State” means the State of California.

“Stated Amount” means the amount available to be **drawn** under any Letter of Credit or Letters of Credit from time to time, as such amount is set forth in the **initial** Letter of Credit delivered on the Closing Date and as such amount shall be stated in such **Letters of Credit** thereafter delivered to the Fiscal Agent. During each Fiscal Year in which such Letter of Credit is in effect, the Stated Amount of each Letter of Credit shall equal the estimated amount of **Special Taxes** to be levied secured by such Letter of Credit during that Fiscal Year.

“Substitute Letter of Credit” shall have the **meaning** given such term in the Supplement to Mitigation Agreement.

“Superintendent” means the Superintendent of the School District, acting for and on behalf of the District.

“Supplement to Mitigation Agreement” means that Supplement to 4S Ranch School Impact Mitigation Agreement made and entered into as of June 17, 2002 by and among the School District, the District and 4S Kelwood General Partnership, as it may be **amended** or supplemented from time to time.

“Supplemental Indenture” means any bond indenture then in full force and effect which has been duly approved by resolution of the Legislative Body **under** and pursuant to the Act at a meeting of the Legislative Body duly convened and held, at which a **quorum** was present and acted thereon, amendatory thereof or supplemental to the Indenture; but only if **and** to the extent that such Supplemental Indenture is specifically authorized thereunder.

“Surplus Special Taxes” shall have the **meaning** given such term in the Supplement to Mitigation Agreement.

“Tax Exempt” means, with reference to a **Permitted Investment**, a Permitted Investment the interest earnings on which are excludable from gross **income** for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in **section 57(a)(5)(C)** of the Code.

“Term Bonds” means the Bonds maturing on **September 1, 2025** and the Bonds maturing on **September 1, 2033**.

“Transferee” shall have the **meaning** given such term in the Supplement to Mitigation Agreement.

“Yield” has the meaning assigned to such term for **purposes** of Section 148(f) of the Code.

Establishment of Funds and Accounts

Improvement Area A Special Tax Fund.

- (a) The District shall, no later than the tenth (10th) Business Day after which Improvement Area A Special Tax Revenues have been received by the District and in any event not later than February 15th and August 15th of each year, transfer such Improvement Area A Special Tax Revenues to the Fiscal Agent for deposit in the Improvement Area A Special Tax Fund. Improvement Area A Special Tax Revenues representing Prepayments shall be transferred upon receipt pursuant to the provisions of the Indenture and Improvement Area A Special Tax Revenues representing Delinquency Proceeds shall, to the extent necessary, first be transferred to the Letter of Credit Fund pursuant to the provisions of the Indenture and then to the Improvement Area A Special Tax Fund.
- (b) The Improvement Area A Special Tax Revenues deposited in the Improvement Area A Special Tax Fund shall be held in trust and transferred to the following funds and accounts on the dates and in the amounts set forth in the following paragraphs and in the following order of priority:
 - (1) The Fiscal shall each Fiscal Year transfer to the Administrative Expense Fund from the first Improvement Area A Special Tax Revenues received by the Fiscal Agent during such Fiscal Year an amount equal to the Administrative Expense Requirement.
 - (2) The Fiscal Agent shall deposit in the Interest Account of the Bond Service Fund, on each Interest Payment Date and date for redemption of the Bonds, an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest due or becoming due and payable on such Interest Payment Date on all Outstanding Bonds or to be paid on the Bonds being redeemed on such date.
 - (3) The Fiscal Agent shall deposit in the Principal Account of the Bond Service Fund, on each Interest Payment Date and redemption date on which the principal of the Bonds shall be payable, an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date pursuant to the Indenture.
 - (4) On or after March 2 and September 2 of each year after making the transfer and deposits required under (1) through (3) above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Fund to an amount equal to the Reserve Requirement.
 - (5) On or after September 2 of each year after making the deposits and transfers required under (1) through (4) above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Rebate Fund the amount specified in such request.
 - (6) On or after September 2 of each year after making the deposits and transfers required under (1) through (5) above, upon receipt of a written request of an

Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably expects (a) will become due and payable during such Fiscal Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund and (b) the cost of which Administrative Expenses will be in excess of the Administrative Expense Requirement for such Fiscal Year.

- (7) If, on or after September 2 of each year, after making the deposits and transfers required under (1) through (6) above, monies remain in the Improvement Area A Special Tax Fund, such monies shall remain on deposit in the Improvement Area A Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of (1) through (6) above, provided, however, that if at any time and from time to time the District determines pursuant to the Supplement to Mitigation Agreement that all or any portion of such monies constitute the proceeds of Surplus Special Taxes, the District may, by written instructions executed by an Authorized Representative, direct the Fiscal Agent to transfer that amount of such monies constituting Surplus Special Taxes to the District to be utilized pursuant to the provisions of the Supplement to Mitigation Agreement.
- (c) The Fiscal Agent shall, upon receipt of Improvement Area A Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Bonds to be redeemed pursuant to the provisions of the Indenture. The Fiscal Agent may conclusively rely upon such instructions.
- (d) When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Improvement Area A Special Tax Fund shall be transferred to the District and used for any lawful purpose under the Act; provided, however, if any such amounts constitute the proceeds of Surplus Special Taxes, such amounts shall be utilized pursuant to the provisions of the Supplement to Mitigation Agreement.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the Capitalized Interest Subaccount, shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All funds on deposit in the Capitalized Interest Subaccount shall be used and withdrawn to pay interest on the Bonds prior to using any other funds on deposit in the Interest Account for such purpose.

Principal Account. 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 and (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition executed by an Authorized Representative, disburse money from the Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition. Any amounts remaining on deposit in the Costs of Issuance Fund on the earlier of the date on which all Costs of Issuance have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of the Bonds shall be transferred to the Infrastructure Improvement Area of the Improvement Area A Special Tax Fund.

Improvement Area A Improvement Fund

Infrastructure Improvement Account.

The Fiscal Agent shall, from time to time, disburse monies from the Infrastructure Improvement Account to pay Actual Costs and Contributions. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture (which payment request shall not exceed the corresponding payment request provided to the School District under the Supplement to Mitigation Agreement), the Fiscal Agent shall pay the Actual Costs or Contributions from amounts in the Infrastructure Improvement Account directly to the contractor or such other person, corporation or entity specified in the payment request (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said Actual Costs or Contribution shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all Actual Costs and Contributions as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the Infrastructure Improvement Account to the Improvement Area A Special Tax Fund. Upon such transfer, the Infrastructure Improvement Account shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the Infrastructure Improvement Account, upon written instruction from the District executed by an Authorized Representative, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Additional School Facilities Account.

The Fiscal Agent shall, from time to time, disburse monies from the Additional School Facilities Account to pay the costs of the construction of the Additional School Facilities. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture, the Fiscal Agent shall pay such costs of construction from amounts in the Additional School Facilities Improvement Account directly to the contractor or such other person, corporation or entity entitled to payment thereunder (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said payment shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all costs of construction of the Additional School Facilities as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the Additional School Facilities Account to the Infrastructure Improvement Account. Upon such transfer, the Additional School Facilities Account shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the Additional School Facilities Account, upon written instruction from the District executed by an Authorized Representative, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Reserve Fund

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Improvement Area A Special Tax Fund and the Bond Service Fund for such purpose are insufficient therefor or redeeming Bonds as described below. The Fiscal Agent shall, when and to the extent necessary, withdraw money from the Reserve Fund and transfer such money to the Bond Service Fund or the Redemption Fund for such purpose.

All Authorized Investments in the Reserve Fund shall be valued at their fair market value at least semi-annually on March 1 and September 1. On any date after the transfers to the Interest Account and the Principal Account have been made for any Bond Year, if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Fiscal Agent shall transfer to the Reserve Fund from the first available monies in the Improvement Area A Special Tax Fund, an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess (a) to the Infrastructure Improvement Account until the earlier of (i) the closure of the Infrastructure Improvement Account or (ii) September 1, 2007 and (b) thereafter to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to written instructions of the District executed by an Authorized Representative.

Upon receipt of written instructions of the District executed by an Authorized Representative instructing the Fiscal Agent to transfer certain moneys representing a Reserve Fund credit for a Prepayment pursuant to the Improvement Area A Special Tax RMA, the Fiscal Agent shall transfer the amount specified in such instructions from the Reserve Fund to the Redemption Fund for the purpose of redeeming Bonds pursuant to such instructions.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund to the Redemption Fund to be applied, on the next succeeding interest payment date, to the payment and redemption of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Redemption Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in

the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District as set forth in the Act.

In no event shall amounts in the Reserve Fund be used to pay fees or expenses of the Fiscal Agent or its counsel.

Rebate Fund.

The District shall calculate Excess Investment Earnings as defined in, and in accordance with, the Rebate Instructions, and shall, in writing, direct the Fiscal Agent to transfer funds to the Rebate Fund from funds furnished by the District as provided for in the Indenture and the Rebate Instructions.

Administrative Expense Fund.

The Fiscal Agent shall deposit from time to time the amounts authorized for deposit therein pursuant to the Indenture. The moneys in the Administrative Expense Fund shall be used to pay Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request executed by an Authorized Representative specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment.

Redemption Fund

Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the provisions of the Indenture. Such monies shall be set aside and used solely for the purpose of paying the principal of, premium, if any, and interest on Bonds subject to optional or extraordinary mandatory redemption and the written instructions of an Authorized Representative given in accordance with the provisions of the Indenture. Any monies remaining on deposit in the Redemption Fund following the redemption of any such Bonds shall remain on deposit therein and shall be used for the purposes provided for in this paragraph.

Letter of Credit Fund

Letter of Credit; Purpose; Duration. As a condition precedent to issuance of the Bonds, the District shall cause each applicable Property Owner to provide a Letter of Credit or Cash Deposit pursuant to the provisions of the Supplement to Mitigation Agreement in the applicable Stated Amount therefor for each Project Area within Improvement Area A and having the Fiscal Agent as beneficiary. The Fiscal Agent shall deposit any Letter of Credit, Substitute Letter of Credit or Cash Deposit provided pursuant to the Supplement to Mitigation Agreement in the Letter of Credit Fund.

Deposits into the Letter of Credit Funds; Transfers from the Letter of Credit Fund.

1. Draws Prior to an Interest Payment Date. Ten Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on the Bonds that will be due and payable on such Interest Payment Date and notify the District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on the Bonds and such insufficiency is attributable to the delinquency in the payment of Improvement Area A Special Taxes levied on properties owned by the Property Owner that provided a Letter of Credit or Cash Deposit pursuant to the Supplement to Mitigation Agreement or an Affiliate of such Property Owner, the Fiscal Agent shall upon the receipt of written direction of an Authorized Officer (prior to any withdrawals from the Reserve Fund)

draw upon such Letter of Credit or withdraw money from the Cash Deposit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Officer) shall equal the delinquent Improvement Area A Special Taxes levied on such Properties. The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any Cash Deposit from the Letter of Credit Fund to the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a Cash Deposit, the District shall, upon receipt of Delinquency Proceeds representing the Improvement Area A Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a Cash Deposit, (a) reimburse the applicable Letter of Credit Provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) replenish the Cash Deposit in an amount not to exceed such transfer from the Cash Deposit.

2. Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or Cash Deposit not provided within fifteen (15) days prior to stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the District. In the event the Fiscal Agent makes such a draw upon a Letter of Credit, the Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described above, such proceeds shall be invested and reinvested by the Fiscal Agent in Government Obligations or Permitted Investments described in paragraph 7. of the definition thereof. At no time shall the District direct that the proceeds of a draw on any Letter of Credit held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the yield on the Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

Letter of Credit Requirements. Except as otherwise provided in the Indenture, the provisions of the Supplement to Mitigation Agreement shall establish and govern all requirements related to any Letter of Credit provided thereunder or under the Indenture including but not limited to applicability of the requirement to provide a Letter of Credit, determination of the Stated Amount thereof, renewal, substitution, reduction and termination thereof. No amendment may be made to any provision of the Supplement to Mitigation Agreement pertaining to the provision of a Letter of Credit that would be materially adverse to the interests of the Bondowners without the consent of the Bondowners obtained pursuant to the provisions of the Indenture.

Receipt by District of any Letter of Credit, Substitute Letter of Credit or Cash Deposit. If the District shall receive a Letter of Credit or a Substitute Letter of Credit provided pursuant to the terms of the Supplement to Mitigation Agreement or a Cash Deposit, the District shall immediately transfer such Letter of Credit, Substitute Letter of Credit or Cash Deposit to the Fiscal Agent. The District shall provide written instructions to the Fiscal Agent to return any Letter of Credit to the Letter of Credit Provider thereof for which a Substitute Letter of Credit or Cash Deposit is being provided upon the effective date of such Substitute Letter of Credit or upon receipt by the Fiscal Agent of such Cash Deposit.

Termination or Release of a Letter of Credit, Substitute Letter of Credit or Cash Deposit. If any Letter of Credit or Substitute Letter of Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent to return such Letter of Credit to the Letter of Credit Provider thereof.

If the requirement to provide a Letter Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement in any case where a Cash Deposit has been provided, the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent to return such Cash Deposit to the Property Owner who provided such Cash Deposit.

Actions by the District. In the event any Letter of Credit Bank wrongfully refuses to honor any drawing made on any Letter of Credit, the District, on behalf of the owners of the Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling the Letter of Credit Bank to honor such drawing and to enforce the provisions of the Letter of Credit.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Improvement Area A Special Tax Fund, the Bond Service Fund, the Improvement Area A Improvement Fund, the Reserve Fund, the Redemption Fund, the Costs of Issuance Fund and Administrative Expense Fund shall, at the written direction of an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as the investments are Permitted Investments). Monies in the Redemption Fund and the Rebate Fund shall, at the written direction of an Authorized Representative, be invested in Government Obligations. Notwithstanding anything therein to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except as provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

Moneys in all Funds and Accounts may be aggregated for purposes of investing in Authorized Investments except when it is necessary to segregate a Fund or Account or portion thereof for purposes of restricting the Yield on the investment of such funds.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent pursuant to the Indenture, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Authorized Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Fiscal Agent for the purposes specified in the Indenture. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Authorized Investments for repurchase under such agreement.

The Fiscal Agent shall sell or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide monies to meet any payment or transfer for such funds and accounts or from such funds and accounts. The Fiscal Agent shall not be liable for any loss from any investments made or sold by it in accordance with the provisions of the Indenture.

Amendments or Supplements.

The Legislative Body may, by adoption of a resolution from time to time, and at any time but without notice to or consent of any of the Bondholders, approve a Supplemental Indenture thereto for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;
- (b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners; or
- (d) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds.

Exclusive of the Supplemental Indenture thereto provided for in the preceding paragraph, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indenture as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing therein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Improvement Area A Special Tax Revenues superior to the pledge provided for of the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondowners at their addresses as they appear in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as provided for in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to the approval thereof by the Legislative Body substantially in the form of the copy thereof referred to in

such Notice as on file with the District, such proposed Supplemental Indenture, when duly approved by the Legislative Body, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the approval of any Supplemental Indenture thereto and the receipt of consent to any such Supplemental Indenture from the Owners of the appropriate aggregate principal amount of Bonds in instances where such consent is required, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments. Notwithstanding anything therein to the contrary, no Supplemental Indenture shall be entered into which would modify the duties of the Fiscal Agent under the Indenture, without the prior written consent of the Fiscal Agent.

Ownership of Bonds.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal and redemption premium, if any, of any such Bond, and the interest on any such Bond, shall be made only to or upon the order of the registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the redemption premium, if any, and interest thereon, to the extent of the sum or sums so paid.

Mutilated, Lost, Destroyed or Stolen Bonds.

If any Bond shall become mutilated, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled. 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 is satisfactory to the Fiscal Agent and, if an indemnity satisfactory to the Fiscal Agent shall be given, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor and maturity, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to have been lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same.

Covenants.

General. As long as the Bonds are Outstanding and unpaid, the District, acting on behalf of the District, shall (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants and agreements set forth in the Indenture; provided, however, that said covenants do not require the District to expend any funds other than the Improvement Area A Special Tax Revenues.

Covenant to Foreclose. On or before June 1 of each Fiscal Year, the District will review the public records of the County of San Diego, California, in connection with the Improvement Area A Special Tax levied in such Fiscal Year to determine the amount of such Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to such Special Tax is delinquent in the payment of such Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to such Special Tax are delinquent in the payment of such Special Taxes in the aggregate of \$10,000 or more, the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to this section and for which such Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of such Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to this section and for which such Special Taxes remain delinquent.

Protection of Security. The District shall preserve and protect the security of the Bonds and the rights of the Bondowners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay Outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture.

No Senior or Parity Liens. Except for the issuance of Parity Bonds pursuant to and as provided for in the Indenture, the District will not issue any other obligations payable, principal or interest, from the Improvement Area A Special Taxes which have, or purport to have, any lien upon such Special Taxes superior to or on a parity with the lien of the Bonds therein authorized. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon such Special Taxes on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in the Annual Debt Service on the Bonds and such refunding bonds or other refunding obligations taken together.

Levy of Improvement Area A Special Taxes. The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area A Special Taxes. Prior to July 1 of each year, the District shall ascertain the parcels on which such Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of such Special Tax in accordance with the Improvement Area A Special Tax RMA and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County of San Diego before the final date on which the Auditor of the County of San Diego will accept the transmission of the Improvement Area A Special Tax for the parcels within the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of such Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to the Auditor of the County of San Diego, such data as such Auditor requires to include the levy of the Improvement Area A Special Tax on the next real property tax roll.

To the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the Maximum Special Tax (as defined in the Improvement Area A Special Tax RMA), unless, in connection therewith, (i) the District receives a certificate from one or more Special Tax Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, such Maximum Special Tax which may be levied on all Assessor's Parcels (as such term is defined in the Improvement Area A Special Tax RMA) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service, and (ii) the Board of Education, acting as the legislative body of the District, finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors of Improvement Area A which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Improvement Area A Special Tax RMA or to limit the power or authority of the District to levy Improvement Area A Special Taxes pursuant to such Special Tax RMA, the District shall, from funds available thereunder, commence and pursue legal action in order to preserve the authority and power of the District to levy such Special Taxes pursuant to such Special Tax RMA.

Proper Books and Records. The District will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Improvement Area A Special Tax Revenues and other funds provided for by the Indenture.

Tax Covenants. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District or take or omit to take any action that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code. The District will not allow five percent (5%) or more of the proceeds of the Bonds to be used in the trade or business of any non-governmental units and will not loan five percent (5%) or more of the proceeds of the Bonds to any non-governmental units.

The District covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of the Code. To that end, the District will comply with all requirements of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of this Section it is necessary to restrict or limit the yield on the investment of any monies held under the Indenture or otherwise the District shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds.

Notwithstanding any provision of this covenant, if the District shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant under the Indenture shall be deemed to be modified to that extent.

Extension of Maturity of the Bonds. The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

Adoption of Policy Regarding Tender of Bonds. The District covenants that it will not adopt any policy pursuant to the Act permitting tender of Bonds in full payment or partial payment of any Improvement Area A Special Taxes, as applicable, unless it first receives a certificate of a Special Tax Consultant that accepting such tender will not result in the District having insufficient Improvement Area A Special Tax Revenues to pay the principal of and interest on the Bonds when due.

Defeasance.

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of the Improvement Area A Special Tax Revenues and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds, the Fiscal Agent shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

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

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds established pursuant to the Indenture (exclusive of the Rebate Fund) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with an escrow bank appointed by the District, in trust, noncallable Permitted Investments of the type described in subparagraph 1 of the definition thereof, in such amount as an Independent Accountant shall determine (as set forth in a verification report from such Independent Accountant) will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture with respect to such Bond

shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Notice of such election shall be filed with the Fiscal Agent not less than ten (10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the Fiscal Agent a certificate of Independent Accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon to pay and discharge the principal of, premium, if any, and interest on all such Bonds to be defeased in accordance with the Indenture as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture.

To accomplish such defeasance, the District shall cause to be delivered (i) a report of the Independent Accountant verifying the determination made pursuant to the preceding paragraph (the "Verification Report") and (ii) an opinion of Bond Counsel to the effect that the Bonds are no longer Outstanding. The Verification Report and opinion of Bond Counsel shall be acceptable in form and substance, and addressed to the District and the Fiscal Agent.

Provisions Constitute a Contract.

The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture shall be enforceable by any Bondowner for the equal benefit and protection of all Bondowners similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may thereafter be authorized under the laws of the State in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State.

No remedy conferred by the Indenture upon any Bondowner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law of the State. No waiver of any default or breach of duty or contract by any Bondowner shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondowner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondowners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and the Bondowner shall prevail, said Bondowner shall be entitled to receive from the Special Tax Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees, and should said suit, action or proceeding be abandoned or be determined adversely to the Bondowners then, and in every such case, the District and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Events of Default.

The following events shall be Events of Default under the Indenture.

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- (b) Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
- (c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such 30-day period unless waived by the Fiscal Agent) shall not constitute an Event of Default under the Indenture if the District shall commence to cure such default within said thirty (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or
- (d) The filing by the District of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Application of Revenues and Other Funds After Default

Except as to moneys on deposit in the Improvement Fund, if a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held or thereafter received under any of the provisions of the Indenture shall be applied as follows and in the following order:

- A. To the payment of any expenses necessary in the opinion of the District to protect the interest of the owners of the Bonds and payment of reasonable charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- B. To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

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

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity of redemption, and if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without discrimination or preference.

Remedies of the Owners.

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

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

B. By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

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

Nothing in Indenture or the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as therein provided, out of the applicable Net Special Tax Revenue pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

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

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

APPENDIX E

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of December 1, 2002 by and among the Poway Unified School District on behalf of Community Facilities District No. 6 (4S Ranch) Improvement Area A of the Poway Unified School District (the "Community Facilities District"), State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States (the "Bank") in its capacity as Fiscal Agent (the "Fiscal Agent"), and David Taussig & Associates, Inc. in its capacity as Dissemination Agent (the "Dissemination Agent") in connection with the issuance of the Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of December 1, 2002 (the "Bond Indenture"), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the 2002 Bonds in the aggregate principal amount of \$18,000,000; and

WHEREAS, the 2002 Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

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

Section 1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2002 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 Bond Indenture which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

"Annual Report Date" shall mean January 31 next following the end of the Community Facility District's fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

"Community Facilities District" means Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District.

"Disclosure Representative" shall mean the Associate Superintendent, Business Support Services of the School District.

“Dissemination Agent” shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District a written acceptance of such designation.

“Improvement Area A” shall mean Improvement Area A of Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District.

“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. Information on the National Repositories as of a particular date is available on the Internet at sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriter” Stone & Youngberg LLC.

“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 Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2004, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 31 in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

- (c) 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 each State Repository, if any;
 - (ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and
 - (iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter 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.

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available.

- (b) The following information regarding the 2002 Bonds and any refunding bonds:
 - (i) Principal amount of 2002 Bonds and any refunding bonds outstanding as of a date within 30 days proceeding the date of the Annual Report;
 - (ii) Balance in the 2002 Bond Service Fund as of a date within 30 days proceeding the date of the Annual Report;
 - (iii) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days proceeding the date of the Annual Report;
 - (iv) Balance in the Improvement Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (i), (ii), (iii) or (iv) hereof;
 - (v) A table summarizing assessed value-to-lien ratios for the property in Improvement Area A of Community Facilities District No. 6 and by the Improvement Area A Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within Improvement Area A on which the Special Taxes are levied, as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 2 next preceding the Annual Report Date. The lien values in such table will include all 2002 Bonds and any refunding bonds of Community Facilities

District No. 6 and all other debt secured by a tax or assessments levied on parcels within Improvement Area A.

- (vi) Information regarding the annual special taxes levied in Improvement Area A, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (vii) Status of foreclosure proceedings of parcels within Improvement Area A and summary of results of foreclosure sales, if available;
- (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within Improvement Area A owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (ix) Concerning delinquent parcels as of the immediately preceding August 15;
 - number of parcels in Community Facilities District No. 6 and Improvement Area A delinquent in payment of Special Tax,
 - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
 - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within Improvement Area A;
- (x) identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding August 15, plus:
 - assessed value of applicable properties, and
 - summary of results of foreclosure sales, if available,
- (xi) a copy of any report for or concerning Improvement Area A of Community Facilities District No. 6 as of the immediately preceding October 31 required under State law;
- (xii) Any changes to the Rate and Method of Apportionment of Special Tax for Improvement Area A or for Community Facilities District No. 6 approved or submitted to the qualified electors of Improvement Area A for approval prior to the filing of the Annual Report; and
- (xiii) With respect to Community Facilities District No. 6 and any other improvement area (each an "Improvement Area") created within Community Facilities District No. 6, the following information:

- The amount of bonds authorized for Community Facilities District No. 6,
- The amount of bonds issued,
- The date of issuance of such bonds, and
- A description of the use of the proceeds of bonds issued.

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been 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 Community Facilities District 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 Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2002 Bonds and any Additional Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and

(xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District 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 Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event would not be material under applicable Federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2002 Bonds pursuant to the Bond Indenture.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2002 Bonds, (ii) prior redemption of the 2002 Bonds or (iii) payment in full of all the 2002 Bonds. If such determination occurs prior to the final maturity of the 2002 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual

Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), 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 2002 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2002 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2002 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the 2002 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Community Facilities District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

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

obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2002 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2002 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent or the Dissemination Agent 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 Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 7.02 and Section 7.05 of the Bond Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2002 Bonds, the Community Facilities District or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Fiscal Agent under the Bond Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Bond Indenture and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2002 Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Community Facilities District 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 in the performance of its duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2002 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent,

the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2002 Bonds, and shall create no rights in **any other** person or entity.

Section 13. Notices. Any notice or **communications** to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community Facilities District:	Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District 13626 Twin Peaks Road Poway, California 92064-3098 Telephone: 858/679-2501 Telecopier: 858/513-0967 Attention: Associate Superintendent, Business Support Services
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If to the Dissemination Agent:	David Taussig & Associates, Inc. 1301 Dove Street, Suite 600 Newport Beach, California 92660 Telephone: 949/955-1500 Telecopier: 949/955-1590
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If to the Fiscal Agent:	State Street Bank and Trust Company of California, N.A. 633 West 5 th Street, 12 th Floor Los Angeles, California 90071 Telephone: 213/362-7334 Telecopier: 213/362-7357
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If to the Participating Underwriter:	Stone & Youngberg LLC 50 California Street, 35th Floor San Francisco, California 94111 Telephone: 415/445-2300 Telecopier: 415/445-2395 Attention: Municipal Research Department
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Section 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the **Rule** in such a manner that requires any landowner within the Community Facilities District to be an **obligated person** as defined in the Rule, nothing contained herein shall be construed to require the Community Facilities District to meeting the continuing disclosure requirements of the Rule with respect to such **obligated person** and nothing in this Disclosure Agreement shall be deemed to obligate the Community Facilities District to disclose information concerning any owner of land within the Community Facilities District **except as required** as part of the information required to be disclosed by the Community Facilities District **pursuant to** Section 4 and Section 5 hereof.

Section 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or **unenforceable** in any respect, such invalidity, illegality or unenforceability shall not affect any other provision **hereof**.

Section 16. State of California Law Governs. The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State of California.

Section 17. 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.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

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

POWAY UNIFIED SCHOOL DISTRICT,
on behalf of Community Facilities District No. 6
(4S Ranch) of the Poway Unified School District

By: _____
Authorized Officer

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A.
as Fiscal Agent

By: _____
Authorized Officer

DAVID TAUSSIG & ASSOCIATES, INC.,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District

Name of Bond Issue: Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 Special Tax Bonds

Date of Issuance: December 19, 2002

NOTICE IS HEREBY GIVEN that Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2002, by and among the Community Facilities District, State Street Bank and Trust Company of California, N.A., as Fiscal Agent and David Taussig & Associates, Inc., as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

David Taussig & Associates, Inc., as
Dissemination Agent, on behalf of the Community
Facilities District

cc: Community Facilities District No. 6 (4S Ranch)
Stone & Youngberg LLC
State Street Bank and Trust Company of California, N.A.

EXHIBIT B
PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 50 California Street, 35th Floor, San Francisco, California 94111,
Telephone: (415) 445-2300, Fax: (415) 445-2395, Attention: Municipal Research Department.

APPENDIX F

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

A Developer Continuing Disclosure Agreement will be provided by 4S Kelwood. The merchant builders are not a Developer (as defined below) and will not be subject to a Continuing Disclosure Agreement.

This CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement") is executed and entered into as of December 1, 2002, by and between State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America (the "Bank"), in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as Fiscal Agent (the "Fiscal Agent"), and 4S Kelwood General Partnership, a California general partnership, organized and existing under and by virtue of the laws of the State of California (the "Developer");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of December 1, 2002 (the "Bond Indenture"), by and between Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "Community Facilities District") and the Fiscal Agent, the Community Facilities District has issued the Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds") in the aggregate principal amount of \$18,000,000;

WHEREAS, the 2002 Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

WHEREAS, the Developer is the owner of a substantial portion of the property within the Community Facilities District and within Improvement Area A; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the 2002 Bonds and in order to assist the Participating Underwriter of the 2002 Bonds in complying with Securities and Exchange Commission Rule 15c2 12(b)(5);

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

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Bond Indenture. In addition, 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, 5% or more of the outstanding voting securities of such other Person, (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"Assumption Agreement" means an agreement between a Major Developer, or an Affiliate thereof, and the Fiscal Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide Semi-Annual Reports and notices of significant events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

"Development Plan" means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to such Major Developer's Property in order for such Property to reach the Planned Development Stage, the time frame in which such improvements are intended

to be made and the estimated costs of such improvements; the Developer's Development Plan, as of the date hereof, is described in the Official Statement under the caption "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Property Ownership."

"Disclosure Representative" means the Chief Financial Officer of Newland Communities LLC, on behalf of the Developer, or his or her written designee, or such other person as the Developer shall designate in writing to the Fiscal Agent from time to time.

"Dissemination Agent" means the Bank, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Fiscal Agent a written acceptance of such designation.

"Event of Bankruptcy" means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person's debts or obligations, or offers to such Person's creditors to effect a composition or extension of time to pay such Person's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of 60 days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person's creditors.

"Financing Plan" means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer's Financing Plan, as of the date hereof, is described in the Official Statement under the caption "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) IMPROVEMENT AREA A – Property Ownership."

"Financial Statements" means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business) identified in such Major Developer's Financing Plan as a source of funding for such Major Developer's Development Plan; provided that, if full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position are audited and prepared in accordance with generally accepted accounting principles as in effect from time to time, then Financial Statements shall include such audited financial statements or reports.

"First Report Date" means the date in each year that is three months after the end of the Developer's fiscal year, which First Report Date, as of the date of this Disclosure Agreement, is April 1.

"Improvement Area A" means Improvement Area A of the Community Facilities District.

"Listed Events" means any of the events listed in Section 4(a) hereof.

"Major Developer" means with respect to the Property owned by the Developer within Improvement Area A as of October 24, 2002, any Property Owner, including the Developer, that owns any portion of such Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the Special Tax levy within the Improvement Area for the then current Fiscal Year.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at sec.gov/info/municipal/nrmsir.htm.

"Official Statement" means the Official Statement, dated December 4, 2002, relating to the 2002 Bonds.

"Participating Underwriter" means the original underwriter of the 2002 Bonds required to comply with the Rule in connection with offering of the 2002 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.

"Planned Development Stage" means, with respect to any portion of the Property, the stage at which finished grading has been substantially completed, major backbone infrastructure for the Property has been substantially completed, in-tract infrastructure of the portions of the Property owned by the Property Owner and any Affiliates has been completed and production units have been constructed.

"Property" means the real property within Improvement Area A of the Community Facilities District that is not exempt from the Special Taxes.

"Property Owner" means any Person that owns a fee interest in any Property.

"Report Dates" means, collectively, the First Report Dates and the Second Report Dates.

"Repository" means each National Repository and each State Repository.

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

"Second Report Date" means the date in each year that is nine months after the end of the Developer's fiscal year, which Second Report Date, as of the date of this Disclosure Agreement, is October 1.

"Semi-Annual Report" means any Semi-Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. Provision of Semi-Annual Reports. (a) The Developer shall, or, upon receipt of the Semi-Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Report Date, commencing with the Second Report Date to occur in 2003. 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 3 hereof; provided, however, that the audited financial statements of the Developer, if any, may be submitted separately from the balance of the Semi-Annual Report that is to be provided no later than the First Report Date, and later than the date required above for the filing of such Semi-Annual Report if not available by that date. If the Developer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(b) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Semi-Annual Report to Repositories, the Developer shall provide the Semi-Annual Report (in a form suitable for reporting to the Repositories) 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 Semi-Annual Report, the Dissemination Agent shall notify the Disclosure Representative and the Fiscal Agent of such failure to receive the Semi-Annual Report. The Developer shall provide a written certification with, or as part of, each Semi-Annual Report furnished to the Dissemination Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Semi-Annual Report.

(c) If the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the

Municipal Securities Rulemaking Board, the appropriate State Repository, if any, the Fiscal Agent and the Participating Underwriter in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine prior to each Report Date the name and address of each National Repository and each State Repository, if any;

(ii) provide any Semi-Annual Report received by it to each Repository, as provided herein; and

(iii) with respect to each Semi-Annual Report received by it and provided by it to each Repository, file a report with the Developer, the Fiscal Agent (if the Dissemination Agent is not the Fiscal Agent) and the Participating Underwriter 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.

(e) The Developer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, provide each Semi-Annual Report to the Participating Underwriter described on Exhibit B attached hereto, to the Fiscal Agent and to the Community Facilities District at the time such Semi-Annual Report is provided to the Repositories in accordance with this Section.

Section 3. Content of Semi-Annual Reports. The Developer's Semi-Annual Report shall contain or incorporate by reference the following:

(a) With respect only to the Semi-Annual Report that is required to be provided no later than the First Report Date, Financial Statements for each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof). If audited Financial Statements are required to be provided, and such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed pursuant to Section 2(a) hereof, such Semi-Annual Report shall contain unaudited Financial Statements, and the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

(b) With respect to all Semi-Annual Reports, the following information with respect to each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof); provided, that, if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of, after due inquiry:

(i) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any material changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of any material changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.

(iii) A description or update of the status of tentative and final maps recorded within Improvement Area A relating to such Major Developer.

(iv) The number of building permits issued with respect to any of such Major Developer's Property during the six month period ending on the last day of the second month preceding the month in which the report date occurs as well as the number of building permits issued with respect to such Major Developer's Property included in each previous Semi-Annual Report, set forth opposite such previous reporting period.

(v) A description of any sales of portions of such Major Developer's Property during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs, including the identification of each buyer (other than individual home buyers) and the number of residential lots and commercial or other acres sold; provided, however, that sales of five or fewer commercial or other acres may be aggregated for the purpose of such description.

(vi) A description of how many residential lots and commercial or other acres of Property were owned by such Major Developer as of the last day of the second month preceding the month in which the Report Date occurs, how many residential lots and commercial or other acres of such Major Developer's Property reached the Planned Development Stage during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs and how many residential lots and commercial or other acres of such Major Developer's Property had not reached the Planned Development Stage as of the last day of the second month preceding the month in which the Report Date occurs.

(vii) a statement as to whether or not such Major Developer and all of its Affiliates paid, prior to their becoming delinquent, all Special Taxes, property taxes, assessments and special taxes levied on the Property owned by such Major Developer and such Affiliates or on other property owned by such Developer or any of such Affiliates in the Community Facilities District that would have been delinquent had they not been paid by the preceding December 10 or April 10, respectively, and if such Major Developer or any of such Affiliates is delinquent in the payment of such Special Taxes, property taxes, assessments or special taxes levied on the Property or on other property owned by such Developer or any of such Affiliates in the Community Facilities District, 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) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material changes in the information relating to the Developer, any Major Developer and/or the Property owned by the Developer or such Major Developer contained in the Official Statement under the caption "SPECIAL RISK FACTORS – Endangered Species" and " – Hazardous Substances."

(ix) An update of the status of any previously reported Listed Event described in Section 4 hereof and information regarding Listed Events, if any, required to be reported pursuant to Section 4 hereof.

(x) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material change in the legal structure or organization of such Major Developer.

(xi) The filing and service of process on such Major Developer of a lawsuit against such Major Developer seeking damages, or a judgment in a lawsuit against such Major Developer, which could have a significant impact on such Major Developer's ability to pay Special Taxes or to sell or develop all or any portion of such Major Developer's Property.

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

Major Developers that are Affiliates of each other may file a single Semi-Annual Report covering all such entities. Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Developer shall clearly identify each such other document

so included by reference. If all of the Property owned by such Major Developer has reached the Planned Development Stage and such fact has previously been reported under this Section 3, no further report under this Section 3 shall be required.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Developer shall promptly give, or cause to be given notice of the occurrence of any of the following events with respect to each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof); provided, that, if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of:

(i) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any conveyance by such Major Developer of Property owned by such Major Developer to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer. In addition, if such transferee has assumed any obligations of Developer under this Disclosure Agreement pursuant to Section 5 hereof, a statement as to the assumption of such obligations by such Major Developer, including a copy of the Assumption Agreement shall be attached to the Notice.

(ii) Any failure of such Major Developer, or any Affiliate of such Major Developer, to pay when due general property taxes, special taxes or assessments with respect to its Property.

(iii) 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 such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer that owns any portion of the Property, to pay Special Taxes within Improvement Area A or to pay special taxes within the Community Facilities District when due.

(iv) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer, that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer that owns any portion of the Property, to pay Special Taxes within Improvement Area A or to pay special taxes within the Community Facilities District when due.

(v) Any significant amendments to land use entitlements for such Developer's Property, if material to the Development Plan.

(vi) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Major Developer's Property, if material to the Development Plan.

(vii) Any previously undisclosed legislative, administrative or judicial challenges to development on such Major Developer's Property, if material to the Development Plan.

(viii) Any changes, if material to the Development Plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Major Developer's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities.

(ix) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will adversely affect the completion of the development of Property owned by such Major Developer, or litigation which if decided against the Major Developer, in the reasonable judgment of the Major Developer, would materially adversely affect the financial condition of the Major Developer.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Dissemination Agent, the Fiscal Agent, the Participating Underwriter,

and the Community Facilities District in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (c). The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter described on Exhibit B attached hereto, to the Fiscal Agent and to the Community Facilities District.

Section 5. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, all of the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement. A copy of the Assumption Agreement shall be provided to the Participating Underwriter described on Exhibit B attached hereto and to the Dissemination Agent, the Fiscal Agent and the Community Facilities District as set forth in Section 4(b) and (c).

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer (including its obligations with respect to itself as a Major Developer) shall terminate upon the earliest to occur of (a) the date on which such Major Developer is no longer a Major Developer, (b) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 5 hereof, or (c) the date on which all Special Taxes levied on the Property owned by such Major Developer and its Affiliates are paid or prepaid in full; provided, however, that upon the occurrence of any of the events described in clause (a), (b) or (c), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. All of the Developer's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of (x) the date on which no Property Owner is a Major Developer, (y) the date on which (i) the Developer is no longer a Major Developer, and (ii) the Developer no longer has any obligations under this Disclosure Agreement with respect to any remaining Property as a result of such obligations having been assumed under one or more Assumption Agreements entered into pursuant to Section 5 hereof, or (z) the date on which all of the 2002 Bonds have been legally defeased, redeemed, or paid in full. Upon the occurrence of any such termination prior to the final maturity of the 2002 Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. Dissemination Agent. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Developer and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Semi-Annual Report nor shall the Dissemination Agent be responsible for filing any Semi-Annual Report not provided to it by the Developer in a timely manner and in a form suitable for filing. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its schedule of fees as amended from time to time. If the Dissemination Agent is the Fiscal Agent, the Community Facilities District shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its agreement with the Community Facilities District.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), 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 Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2002 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2002 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2002 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners of the 2002 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of owners or beneficial owners of the 2002 Bonds.

If the financial information or operating data contained within the Financial Statements required to be provided in the Semi-Annual Report is amended pursuant to the provisions hereof, the first Semi-Annual Report or amendment or supplement thereto containing the operating data or financial information in accordance with such amendment shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing the Financial Statements, the financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the Financial Statements or information, in order to provide information to investors to enable them to evaluate the ability of the Major Developer to generally meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4 hereof.

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

Section 10. Default. In the event of a failure of the Developer or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2002 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or any owner or beneficial owner of the 2002 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer or the 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 Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer, the Dissemination Agent or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Developer agrees to indemnify and save each of the Fiscal Agent and the Dissemination Agent, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it or they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees)

of defending against any claim of liability, but excluding losses, expenses and liabilities due to the Fiscal Agent's or the Dissemination Agent's negligence, willful misconduct or failure to comply with any provision of this Disclosure Agreement. The Dissemination Agent and Fiscal Agent shall have no responsibility for the preparation, review, form or content of any Semi-Annual Report or any notice of a Listed Event. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent or Fiscal Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent and Fiscal Agent may conclusively rely on the determination of the Developer as to the materiality of any event for purposes of Section 4 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Developer's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community Facilities District: Community Facilities District No. 6 (4S Ranch)
of the Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098
Telephone: (858) 679-2501
Telecopier: (858) 513-0967
Attention: Associate Superintendent, Business Support Services

If to the Dissemination Agent: State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Telephone: 213/362-7334
Telecopier: 213/362-7357

If to the Fiscal Agent: State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Telephone: 213/362-7334
Telecopier: 213/362-7357

If to the Participating Underwriter: Stone & Youngberg LLC
50 California Street, 35th Floor
San Francisco, California 94111
Telephone: (415) 445-2300
Telecopier: (415) 445-2395
Attention: Municipal Research Department

If to the Developer: 4S Kelwood General Partnership
c/o Newland Communities
10815 Rancho Bernardo Road, Suite 310
San Diego, California 92127-2189

With a copy to: Newland Communities LLC
Attn: Legal Department
9404 Genesee Avenue, Suite 230
La Jolla, California 92037-1354

Section 13. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2002 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2002 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.

Section 15. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

Section 16. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 17. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

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

4S KELWOOD GENERAL PARTNERSHIP,
a California general partnership

By: KELWOOD DEVELOPMENT COMPANY
LLC, a Delaware limited liability company

Its: Managing Partner

By: _____
Name:
Title:

By: _____
Name:
Title:

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., as Fiscal Agent

By: _____
Authorized Officer

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District Improvement Area A 2002 Special Tax Bonds

Date of Issuance: December 19, 2002

NOTICE IS HEREBY GIVEN that 4S Kelwood General Partnership (the "Developer") has not provided a Semi-Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2002, by and between the Developer, State Street Bank and Trust Company of California, N.A., as Fiscal Agent and as Dissemination Agent. [The Developer anticipates that the Semi-Annual Report will be filed by _____.]

Dated: _____, 20__

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A., as
Dissemination Agent on behalf of the Developer

cc: Poway Unified School District
Stone & Youngberg LLC

EXHIBIT B
PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 50 California Street, 35th Floor, San Francisco, California 94111,
Telephone: 415/445-2300, Fax: (415) 445-2395, Attention: Municipal Research Department

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

Board of Education
Poway Unified School District
13626 Twin Peaks Road
Poway, Ca. 92064-3098

BOND OPINION

POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
IMPROVEMENT AREA A
2002 SPECIAL TAX BONDS

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "District"), of \$18,000,000 aggregate principal amount of the Poway Unified School District Community Facilities District No. 6 (4S Ranch) Improvement Area A 2002 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 Board of Education on November 18, 2002 (the "Resolution"), and a Bond Indenture, dated as of December 1, 2002 (the "Bond Indenture"), between the District and State Street Bank and Trust Company of California, N.A., as fiscal agent (the "Fiscal Agent").

We have examined the Act, the Resolution, the Bond Indenture 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 opinion, we have relied upon the representations of the District and the Poway Unified School District 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 Bond Indenture having been duly authorized and executed by the proper official, 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 Improvement Area A of the District and other funds available therefor held under the Bond Indenture.

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 Bond Indenture, the District 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 District 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 Bond Indenture 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,

Best Best & Krieger LLP

APPENDIX H

BOOK-ENTRY AND DTC

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2002 Bonds, payment of principal of and interest on the 2002 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2002 Bonds, confirmation and transfer of beneficial ownership interests in the 2002 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2002 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2002 Bonds. The 2002 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 2002 Bond will be issued for each maturity of the 2002 Bonds, each 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC’s participants (the “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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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 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 (the “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.

Purchases of 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2002 Bond (the “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 2002 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 2002 Bonds, except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 2002 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 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2002 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2002 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2002 Bonds documents. For example, Beneficial Owners of 2002 Bonds may wish to ascertain that the nominee holding the 2002 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2002 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities District as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment on the 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Community Facilities District or the Fiscal Agent, on a payment 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 the nominee), the Fiscal Agent or the Community Facilities District, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative

of DTC) is the responsibility of the 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 service as depository with respect to the 2002 Bonds at any time by giving reasonable notice to the Community Facilities District and the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2002 Bond certificates are required to be printed and delivered as described in the Indenture.

The Community Facilities District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2002 Bond certificates will be printed and delivered as described in the Indenture.

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

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2002 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2002 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully registered 2002 Bond for each maturity of the 2002 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2002 Bonds, then the 2002 Bonds shall no longer be restricted to being registered in the 2002 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2002 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2002 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2002 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2002 Bonds will be transferable and exchangeable as provided in the Indenture.

The Community Facilities District and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2002 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2002 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2002 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2002 Bonds or the Indenture. The Community Facilities District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2002 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Community Facilities District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2002 Bonds or any error or delay relating thereto.

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