

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.

\$25,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
SPECIAL TAX BONDS, SERIES 2002

Dated: Date of Delivery

Due: September 1, as shown below

The Special Tax Bonds, Series 2002 (the "2002 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture, dated as of August 1, 2002 (the "Bond Indenture"), by and between the 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., as fiscal agent (the "Fiscal Agent"). The 2002 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the Community Facilities District and by the Board of Education of the Poway Unified School District (the "School District"), acting as 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 school facilities (the "School Facilities"), (ii) to fund a Reserve Fund for the 2002 Bonds, (iii) to pay interest on the 2002 Bonds through March 1, 2003 and (iv) to pay the costs of issuing the 2002 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES 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 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. 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 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 October 10, 2002.

Stone & Youngberg LLC

Dated: September 20, 2002

MATURITY SCHEDULE
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
\$6,690,000 SPECIAL TAX BONDS, SERIES 2002
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>
2004	\$ 25,000	2.50%	100%	DK8	2013	\$355,000	4.60%	100%	DU6
2005	55,000	3.00	100	DL6	2014	405,000	4.70	100	DV4
2006	85,000	3.50	100	DM4	2015	455,000	4.80	100	DW2
2007	115,000	3.80	100	DN2	2016	510,000	4.90	100	DX0
2008	150,000	4.00	100	DP7	2017	570,000	5.00	100	DY8
2009	185,000	4.20	100	DQ5	2018	635,000	5.10	100	DZ5
2010	225,000	4.30	100	DR3	2019	705,000	5.20	100	EA9
2011	265,000	4.40	100	DS1	2020	780,000	5.30	100	EB7
2012	310,000	4.50	100	DT9	2021	860,000	5.40	100	EC5

\$4,340,000 5.50% Term 2002 Bonds due September 1, 2025 Price 100% CUSIP No. 738855ED3

\$13,970,000 5.60% Term 2002 Bonds due September 1, 2033 Price 100% CUSIP No. 738855EE1

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POWAY UNIFIED SCHOOL DISTRICT

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Keith Bradford, *Associate Superintendent – Business Support Services*
John P. Collins, *Deputy Superintendent*

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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.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
The School District	1
The Community Facilities District	1
Purpose of the 2002 Bonds	4
Sources of Payment for the 2002 Bonds	4
Appraisal	5
Tax Exemption	6
Risk Factors Associated with Purchasing the 2002 Bonds	7
Forward Looking Statements	7
Professionals Involved in the Offering	7
Other Information	7
CONTINUING DISCLOSURE	8
ESTIMATED SOURCES AND USES OF FUNDS	9
SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS	9
THE 2002 BONDS	10
Authority for Issuance	10
General Provisions	10
Debt Service Schedule	11
Redemption	12
Registration, Transfer and Exchange	14
Book-Entry and DTC	14
SECURITY FOR THE 2002 BONDS	14
General	14
Special Taxes	15
Rate and Method	15
Proceeds of Foreclosure Sales	19
Special Tax Fund	20
Bond Service Fund	20
Redemption Fund	21
Reserve Fund	21
Administrative Expense Fund	21
Improvement Fund	21
Investment of Moneys in Funds	21
Payment of Rebate Obligation	21
Parity Bonds	22
Special Taxes Are Not Within Teeter Plan	22
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)	24
General Information	24
Authority for Issuance	25
Environmental Review	26
Environmental Permits	26
Development Agreement	27
Development Status and Current Entitlement	28
Special Tax Collections	28
Property Ownership	30
4S Kelwood and the Merchant Builders	31
Appraised Property Values	41
Estimated Special Tax Allocation by Project	43

Direct and Overlapping Debt	44
Overlapping Assessment and Maintenance Districts	48
BONDOWNERS' RISKS	49
Risks of Real Estate Secured Investments Generally	49
Concentration of Ownership	49
Failure to Develop Properties	49
Special Taxes Are Not Personal Obligations	50
The 2002 Bonds Are Limited Obligations of the Community Facilities District	50
Appraised Values	50
Land Development	51
Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property	51
Disclosure to Future Purchasers	52
Government Approvals	52
Local, State and Federal Land Use Regulations	52
Utility Deregulation	53
State Budget	53
Endangered and Threatened Species	53
Hazardous Substances	53
Insufficiency of the Special Tax	54
Exempt Properties	55
Depletion of Reserve Fund	55
Potential Delay and Limitations in Foreclosure Proceedings	55
Bankruptcy and Foreclosure Delay	56
Payments by FDIC and Other Federal Agencies	57
Factors Affecting Parcel Values and Aggregate Value	58
No Acceleration Provisions	59
District Formation	59
Billing of Special Taxes	59
Inability to Collect Special Taxes	60
Right to Vote on Taxes Act	60
Ballot Initiatives and Legislative Measures	61
Limited Secondary Market	61
Loss of Tax Exemption	61
Limitations on Remedies	61
LEGAL MATTERS	62
Legal Opinion	62
Tax Exemption	62
Absence of Litigation	63
No General Obligation of School District or Community Facilities District	63
NO RATINGS	63
UNDERWRITING	63
PROFESSIONAL FEES	64
MISCELLANEOUS	64
APPENDIX A - General Information About the Poway Unified School District	A-1
APPENDIX B - Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 6 (4S Ranch)	B-1
APPENDIX C - Summary Appraisal Report and Update Letter	C-1
APPENDIX D - Summary of Certain Provisions of the Bond Indenture	D-1
APPENDIX E - Form of Community Facilities District Continuing Disclosure Agreement	E-1
APPENDIX F - Form of Opinion of Bond Counsel	F-1
APPENDIX G - Book-Entry and DTC	G-1

OFFICIAL STATEMENT

\$25,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)
SPECIAL TAX BONDS, SERIES 2002

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) Special Tax Bonds, Series 2002 (the "2002 Bonds").

The 2002 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of August 1, 2002 (the "Bond Indenture"), by and between the School District (as defined below) and U. S. Bank, N.A., as fiscal agent (the "Fiscal Agent"). 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. 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

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 "Special Taxes") in the Community Facilities District. The owners of property within portions of the Community Facilities District have 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 "Improvement Area Facilities") in the aggregate principal amount of approximately \$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. See "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement

Area Rates and Methods” and “COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 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 Improvement Area Facilities funded by the Improvement Areas. The School Facilities will be financed through the levy of an annual Special Tax on Developed Property and Undeveloped Property as set forth in the Community Facilities District No. 6 Rate and Method of Apportionment of Special Tax for the Community Facilities District (the “Rate and Method”). See “SECURITY FOR THE 2002 BONDS – Rate and Method – Community Facilities District No. 6 Rate and Method.” The School District will use such Special Taxes and proceeds of the 2002 Bonds and any Parity Bonds for the acquisition, construction, rehabilitation and improvement of the School Facilities. The 2002 Bonds are secured by or payable from the Special Tax levied to finance the School Facilities. The 2002 Bonds will only finance School Facilities and will not finance Improvement Area Facilities. The 2002 Bonds will not be secured by or payable from the special tax proposed to be authorized to be levied to finance the Improvement Area 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 273 gross acres are under development as of August 1, 2002.

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.

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 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 will be levied on Taxable Property for the acquisition and construction of elementary, middle, and high school facilities, including classrooms, multi-purpose, administration and auxiliary space at each school, central support and administrative facilities, interim housing, transportation and special education facilities, together with furniture, equipment and technology and related expenses. There is also a One-Time Special Tax to be levied on the date a building permit is issued for the construction of a structure other than a residential structure for such purposes. The One-Time Special Tax is not pledged to payment of the Bonds.

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 One, 4S Kelwood has sold approximately 145 net residential acres for development of approximately 1,084 Detached Units to the following merchant builders: (i) William Lyon Homes ("William Lyon Homes"); (ii) Fieldstone Communities ("Fieldstone Communities"); (iii) PLC 4S Ranch, LLC ("PLC 4S Ranch, LLC"); (iv) Davidson-Rancho Bernardo, L.P. ("Davidson-Rancho Bernardo"); (v) CRV 4S Ranch, LP, a California limited partnership ("CRV 4S Ranch, LP"); (vi) Brookfield Homes ("Brookfield Homes"); (vii) Ryland Homes ("Ryland Homes") and (viii) DR Horton San Diego Holding Company Incorporated ("DR Horton"). 4S Kelwood is also negotiating the sale of approximately 7.0 net residential acres expected to be developed with approximately 120 Affordable Units to Bridge Housing Corporation ("Bridge Housing"). Affordable Units are not subject to the Special Tax.

Based on estimated aggregated debt service on the 2002 Bonds and Administrative Expenses which combined total approximately \$1,413,000 for the bond year ending September 1, 2004, it is estimated that 670 building permits must be issued by January 1, 2003 (the cutoff date for Developed Property pursuant to the Rate and Method), for the Fiscal Year 2003-04 Special Tax levy to be on Developed Property only, with no levy on Undeveloped Property. 4S Kelwood has indicated that as of August 30, 2002, it believes at least 650 building permits for Detached Units have been issued. As of August 30, 2002, the School District has issued 757 certificates of compliance to the Merchant Builders (as defined below), which is an indication that additional building permits beyond the 650 estimated by 4S Kelwood will be issued in the third quarter of 2002, and in advance of the January 1, 2003 date for determining which parcels are Developed Property. Based on the foregoing information, the Community Facilities District estimates that no Special Tax will be levied on Undeveloped Property in Fiscal Year 2003-04. 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 Merchant Builders will be responsible. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)" for a description of the Community Facilities District, 4S Kelwood, the Merchant Builders and the development within the Community Facilities District.

Within Neighborhood Two 4S Kelwood has also entered into contracts for the sale of approximately 70 net residential acres expected to be developed with approximately 370 Detached Units to Centex Homes ("Centex Homes"), K. Hovnanian Homes ("K. Hovnanian Homes"), Fieldstone Communities, Pulte Homes ("Pulte Homes") and Buie Communities ("Buie Communities") and is negotiating contracts for sale of other parcels to other merchant builders.

As of August 30, 2002, 4S Kelwood has indicated that the properties sold, or under contract for sale, aggregate approximately 1,574 residential units (approximately 1,454 Detached Units, 0 Attached Units and 120 Affordable Units).

The various merchant builders involved in development within the Community Facilities District, including William Lyon Homes, Fieldstone Communities, PLC 4S Ranch, LLC, Davidson-Rancho Bernardo, CRV 4S Ranch, LP, Brookfield Homes, Ryland Homes, DR Horton, K. Hovnanian Homes, Pulte Homes, Centex Homes and Buie Communities 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 the Community Facilities District is set forth in "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)" 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 is being amended by a supplement to the Impact Mitigation Agreement to, among other things, provide for the issuance of bonds of the Improvement Areas to fund Improvement Area Facilities. See "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS," "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods" and "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 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 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 Special Taxes resulting from the delinquency in the payment of the 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 \$40,000 (escalating by 2% each commencing the bond year beginning on September 2, 2003) with respect to the Community Facilities District. "Special Taxes" are defined in the Bond Indenture as the proceeds of the special taxes levied and received by the Community Facilities District and the Delinquency Proceeds.

Pursuant to the Act, the 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 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 Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within the Community Facilities District for inclusion on the next real property tax roll. See "SECURITY FOR THE 2002 BONDS – Special Taxes" herein.

The 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, including the Affordable Units, subject to certain limitations. See "SECURITY FOR THE 2002 BONDS – Rate and Method" 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 Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the 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 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 OF THE COMMUNITY FACILITIES DISTRICT, 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 OF THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements for the development within the Community Facilities District dated May 30, 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 Neighborhood One and a limited appraisal of the taxable properties within Neighborhoods Two through Four. The taxable properties include the completed sold and unsold homes, homes under construction, and vacant residential land, excluding the Affordable Units and excluding all commercial land. In Neighborhood One, the taxable properties include 10 separate tracts which will contain a total of approximately 1,084 Detached Units, of which as of May 1, 2002 there were 248 completed homes, 176 homes under construction, and vacant lots or partially graded acreage for the remaining 660 units. In Neighborhoods Two through Four, the taxable properties included 23 residential sites (Planning Areas) which are planned for a total of approximately 2,762 dwelling units in a broad spectrum of housing from condominiums (categorized as Attached Units) at 29 per acre to Detached Units on 7,000 square foot lots. The Appraisal estimates the market value of each tract in Neighborhood One and the minimum market value of the bulk ownership comprising Neighborhoods Two through Four. The valuation of the land comprising Neighborhoods Two through Four consists of a Limited Appraisal for the purpose of estimating the minimum market value. Thus, the value is subject to refinement if a complete appraisal or more thorough analysis were to be made.

The Appraisal does not value the property expected to be developed with a approximately 120 Affordable Units in Neighborhood One, the land proposed for an approximately 550 unit apartment complex in Neighborhood Four (of which 529 units are estimated to be Attached Units and 21 units are estimated to be Affordable Units) and the land encompassing approximately 36 proposed Detached Units which are located in Neighborhood Four and owned by an entity which is not affiliated with 4S Kelwood. The Affordable Units are not subject to the levy of the Special Tax. Attached Units will be subject to the levy of the Special Tax. The apartment unit site is within an area zoned for commercial property and as of August 30, 2002 is not subject to the levy of Special Tax as Undeveloped Property.

The Appraisal is based on certain assumptions and limiting conditions. Subject to these assumptions and limiting conditions, as of May 1, 2002, the Appraiser estimated that the market value of the property within the Community Facilities District (subject to the lien of the Special Taxes), including completed sold and unsold homes, homes under construction, and vacant residential land, was as follows:

Merchant Builder/Landowner	Tract Name/ Neighborhood	Market Value
William Lyon Homes	Providence – Neighborhood One	\$39,847,000
William Lyon Homes	Tanglewood – Neighborhood One	14,100,000
William Lyon Homes	Summerwood – Neighborhood One	10,450,000
Davidson-Rancho Bernardo	Talavera – Neighborhood One	42,944,000
Ryland Homes	Ryland Heritage – Neighborhood One	40,452,000
DR Horton	Cedar Creek – Neighborhood One	35,200,000
Fieldstone Communities	Homestead – Neighborhood One	32,239,000
Brookfield Homes	Amherst – Neighborhood One	23,634,000
PLC 4S Ranch, LLC	Legacy – Neighborhood One	23,483,000
CRV 4S Ranch, LP	Garden Gate – Neighborhood One	15,765,000
4S Kelwood	Neighborhoods Two-Four	<u>110,000,000</u>
Total		\$388,114,000

The \$388,114,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 15.4 to 1 with respect to the Community Facilities District, calculated with respect to all direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2002 Bonds. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate values. The foregoing value-to-lien estimate includes the value of the Undeveloped Property in Neighborhoods One through Four. Based on estimated debt service on the 2002 Bonds and the estimated number of building permits expected to be issued by January 1, 2003, the Community Facilities District does not anticipate levying a Special Tax in Fiscal Year 2003-04 on Undeveloped Property. The foregoing value to lien estimate does not include the overlapping indebtedness expected to be incurred with respect to the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), Neighborhood Three (Improvement Area B) and Neighborhood Four (Improvement Area C). (A portion of Neighborhood Four encompassing approximately 36 proposed Detached Units is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Improvement Area Facilities are estimated to be issued in the fourth quarter of 2002 or first quarter of 2003 for Improvement Area A (Neighborhood Two) in the estimated amount of \$16,600,000. On August 28, 2002, the Appraiser confirmed that, based on his knowledge of the current residential market in the general area, and based on the significant amount of development which has occurred in 4S Ranch subsequent to May 1, 2002, the current value would be at least as high as the value reported in the Appraisal. See "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods," "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood and the Merchant Builders," "Direct and Overlapping Debt" and BONDOWNERS' RISKS – Appraised Values" herein and APPENDIX C – "Summary Appraisal Report and Update Letter" 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" 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)" and " - Property Ownership and the Developments" 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, 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. 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, the School District, 4S Kelwood's and 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.

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, 2003 (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.

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 School District under the Bond Indenture, as follows:

SOURCES

Principal Amount of 2002 Bonds	\$25,000,000.00
Less: Underwriter's Discount	<u>337,500.00</u>
Total Sources	\$24,662,500.00

USES

Deposit into Reserve Fund ⁽¹⁾	\$2,284,124.97
Deposit into Costs of Issuance Fund ⁽²⁾	415,625.00
Deposit into Improvement Fund ⁽³⁾	21,435,090.82
Deposit into Capitalized Interest Subaccount of the Bond Service Fund ⁽⁴⁾	527,659.21
Total Uses	<u>\$24,662,500.00</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 the Community Facilities District and \$250,000 to 4S Kelwood for Community Facilities District advances.

(3) See "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS" below. Approximately \$400,000 of the proceeds of the 2002 Bonds will be used to reimburse 4S Kelwood for architectural and engineering costs relating to elementary school facilities.

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

SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS

Proceeds of the 2002 Bonds will be used to fund the acquisition of School Facilities and related infrastructure required by the School District as a result of development of the property within the Community Facilities District, including classrooms, multi-purpose, administration and auxiliary space at each school, central support and administrative facilities, interim housing, transportation and special education facilities, together with furniture, equipment and technology with a useful life of at least five years and related administrative expenses and the acquisition of land for the construction of School Facilities or land or interests in land required to be provided as mitigation of environmental impacts associated with the development of School Facilities. The School Facilities are proposed to include acquisition from KS Kelwood of a 10-acre elementary school site in Neighborhood One, the construction of the elementary school in Neighborhood One and a portion of the cost of the acquisition from 4S Kelwood of a 23 acre middle school site in Neighborhood Two. In addition to school site acquisition costs paid to 4S Kelwood, approximately \$400,000 of the proceeds of the 2002 Bonds will be used to reimburse 4S Kelwood for architectural and engineering costs relating to the elementary school site.

Proceeds of future special taxes levied pursuant to separate Improvement Area Rates and Methods of Apportionment of Special Tax (each an "Improvement Area Rate and Method") or bonds issued payable from special taxes levied pursuant to the Improvement Area Rates and Methods will be used to finance the Improvement Area Facilities. See "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods" and "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood and the Merchant Builders."

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 the 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		\$1,201,266.71	\$1,201,266.71
2004	\$25,000	1,347,215.00	1,372,215.00
2005	55,000	1,346,590.00	1,401,590.00
2006	85,000	1,344,940.00	1,429,940.00
2007	115,000	1,341,965.00	1,456,965.00
2008	150,000	1,337,595.00	1,487,595.00
2009	185,000	1,331,595.00	1,516,595.00
2010	225,000	1,323,825.00	1,548,825.00
2011	265,000	1,314,150.00	1,579,150.00
2012	310,000	1,302,490.00	1,612,490.00
2013	355,000	1,288,540.00	1,643,540.00
2014	405,000	1,272,210.00	1,677,210.00
2015	455,000	1,253,175.00	1,708,175.00
2016	510,000	1,231,335.00	1,741,335.00
2017	570,000	1,206,345.00	1,776,345.00
2018	635,000	1,177,845.00	1,812,845.00
2019	705,000	1,145,460.00	1,850,460.00
2020	780,000	1,108,800.00	1,888,800.00
2021	860,000	1,067,460.00	1,927,460.00
2022	940,000	1,021,020.00	1,961,020.00
2023	1,035,000	969,320.00	2,004,320.00
2024	1,130,000	912,395.00	2,042,395.00
2025	1,235,000	850,245.00	2,085,245.00
2026	1,345,000	782,320.00	2,127,320.00
2027	1,460,000	707,000.00	2,167,000.00
2028	1,585,000	625,240.00	2,210,240.00
2029	1,720,000	536,480.00	2,256,480.00
2030	1,860,000	440,160.00	2,300,160.00
2031	2,010,000	336,000.00	2,346,000.00
2032	2,170,000	223,440.00	2,393,440.00
2033	<u>1,820,000</u>	<u>101,920.00</u>	<u>1,921,920.00</u>
Total	\$25,000,000	\$31,448,341.71	\$56,448,341.71

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 Series 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. 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, 2022, 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:

2025 TERM BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2022	\$940,000
2023	1,035,000
2024	1,130,000
2025 (maturity)	1,235,000

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:

2033 TERM BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2026	\$1,345,000
2027	1,460,000
2028	1,585,000
2029	1,720,000
2030	1,860,000
2031	2,010,000
2032	2,170,000
2033 (maturity)	1,820,000

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 G – "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 applicable 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, and the Improvement Fund are not pledged to the repayment of the 2002 Bonds. The School Facilities 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 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 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 in the Community Facilities District are not available to pay principal of or interest on the Bonds issued with respect to each proposed Improvement Area. The Special Taxes levied pursuant to each Improvement Area 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) – 4S Kelwood and the Merchant Builders – 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, 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 MORE FULLY DESCRIBED HEREIN.

Rate and Method

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.

4S Kelwood participated in the proceedings for formation of the Community Facilities District. Pursuant to such proceedings, a Special Tax may be levied and collected within all of the Community Facilities District to finance School Facilities according to the Rate and Method, a copy of which is set forth in APPENDIX B – "Rate and Method of Apportionment for Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District." See "Proposed Improvement Area Rates and Methods" below.

The qualified electors of the Community Facilities District approved the Rate and Method on March 24, 1998. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

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 are in process. See "Proposed Improvement Area Rates and Methods" below.

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 Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The 2002 Bonds, when issued, will fund School Facilities and will be secured by any annual Special Taxes levied pursuant to the Rate and Method. The Rate and Method provides that the Annual 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 Rate and Method is included in Appendix B hereto.

Annual Community Facilities District Special Tax Requirement. Annually, at the time of levying the Special Tax for the Community Facilities District, the Associate Superintendent shall reasonably determine the Special Tax Requirement and the Undeveloped Special Tax Requirement. The Special Tax Requirement is defined as the amount required to pay the following:

- (i) the regularly scheduled debt service on all Bonds (i.e., the 2002 Bonds applicable to the Community Facilities District, any Parity Bonds or any refunding 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 (there are none for the 2002 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.

The Undeveloped Special Tax Requirement is an amount calculated based on the remaining amounts required to pay the Special Tax Requirement, after deducting the amounts levied on Developed Property, for payment of the Special Tax Requirement. A Special Tax is authorized to be levied on Undeveloped Property to fund the Undeveloped Special Tax Requirement, if any.

The Community Facilities District Rate and Method also establishes a Special Tax Requirement A which is an amount required to fund the "Technology Budget" less any amount previously received by the Community Facilities District from 4S Kelwood to fund such Technology Budget in a Fiscal Year in which an elementary school located within or financed by the Community Facilities District is opened. ***The Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A. The One-Time Special Tax is not collected in connection with construction of a residential structure but is collected on other Undeveloped Property on the date a Building Permit is issued for such Assessor' Parcel. Therefore, the following description of the Rate and Method does not include reference to the Special Tax Requirement A.*** The Indenture provides that funds

in an amount equal to the Special Tax Requirement A and the One-Time Special Tax are not pledged to payment of the 2002 Bonds.

Developed and Undeveloped Property; Exempt Property. The Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within the Community Facilities District shall be classified as Developed Property, Undeveloped Property or Exempt Property and shall be subject to Special Taxes in accordance with the Rate and Method.

(i) "Developed Property" means all Assessor's Parcels for which Building Permits for new construction were issued after the formation of the Community Facilities District and on or before January 1 of the prior Fiscal Year.

(ii) "Undeveloped Property" means all Assessor's Parcels in the Community Facilities District for which no Building Permit was issued after the formation of the Community Facilities District and on or before January 1 of the prior Fiscal Year.

(iii) "Taxable Property" means all Assessor's Parcels within the Community Facilities District which are not exempt from the special tax pursuant to law or as Exempt Property (as defined below) pursuant to the Rate and Method.

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

(a) parcels owned by the State, federal or other local governments except as otherwise provided in sections 53317.3, 53317.5 and 53340.1 of the Government Code;

(b) parcels within the boundaries of the Community Facilities District which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization,

(c) parcels used exclusively by a homeowner's association, parcels with public or utility easements making impractical their use for purposes other than those set forth in the easements, and

(d) Assessor's Parcels identified entirely as open space on a final map.

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

(i) Undeveloped Property: In any Fiscal Year, the Maximum Special Tax for each Assessor's Parcel of Undeveloped Property shall be the sum of (i) the Assigned Annual Special Tax and (ii) the One-Time Special Tax. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2002-03 is \$1,104.08 per acre. On each July 1, the Assigned Annual Special Tax per acre shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. ***Although the Rate and Method refers to an Assigned Annual Special Tax for Undeveloped Property in Zone A which exceeds the rate of the Assigned Annual Special Tax for Undeveloped Property outside of Zone A to fund this Special Tax Requirement A, the Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A and the effective Assigned Annual Special Tax will be the same for all Undeveloped Property whether or not a parcel is within Zone A.*** Zone A originally encompassed the residential portions of Neighborhoods Three and Four.

(ii) 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.

In Fiscal Year 2002-03, the Assigned Annual Special Tax is \$2,070.28 for Detached Units and \$915.70 for Attached Units. Affordable Units are not subject to the 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 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 APPENDIX B – "Rate and Method of Apportionment for Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District - Table 1" herein for a listing of the Assigned Annual Special Tax rates.

Method of Apportionment. The Rate and Method provides that commencing Fiscal Year 1997-98 and for each subsequent Fiscal Year, the Associate Superintendent shall reasonably determine the Special Tax Requirement and the Undeveloped Special Tax Requirement. The Community Facilities District shall levy Annual Special Taxes within the Community Facilities District as follows:

1. The Community Facilities District shall levy an Annual Special Tax 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. 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.

The Rate and Method refers to a third step in which an Annual Special Tax would 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. ***The Impact Mitigation Agreement provides that the Community Facilities District will not levy Special Taxes to satisfy the Special Tax Requirement A.*** Therefore, the effective Assigned Annual Special Undeveloped Properties located in Zone A will be the same as the Assigned Annual Special Tax on Undeveloped Properties located outside of Zone A.

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 – "Rate and Method of Apportionment for Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District – Section G" herein.

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, 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. These prepayments are pledged to payment of the Bonds.

Proposed Improvement Area Rates and Methods. The proposed Improvement Area Rates and Methods will 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 Improvement Area Facilities. Neighborhood One is not within any proposed Improvement Area. Improvement Area A is proposed to encompass Neighborhood Two and approximately \$18,000,000 of bonds are proposed to be authorized for Improvement Area A. Improvement Area B is proposed to encompass Neighborhood Three and approximately \$30,000,000 of bonds are proposed to be authorized for Improvement Area B. Improvement Area C is proposed to encompass Neighborhood Four (except for approximately 36 proposed Detached Units) and approximately \$14,000,000 of bonds are proposed to be authorized for Improvement Area C. *The 2002 Bonds do not include any funding for Improvement Area Facilities, and the 2002 Bonds are not secured by any special taxes proposed to be levied pursuant to the Improvement Area Rates and Methods.* The Improvement Area Rates and Methods and authorized bond amounts have not yet been presented to or approved by the School District. Each of the Improvement Area special taxes rates are expected to be 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) – Appraised Property Values" do not include the overlapping indebtedness expected to be incurred with respect

to the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), Neighborhood Three (Improvement Area B) and Neighborhood Four (Improvement Area C). (A portion of Neighborhood Four encompassing approximately 36 proposed Detached Units is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Improvement Area Facilities are estimated to be issued in the fourth quarter of 2002 or first quarter of 2003 for Improvement Area A (Neighborhood Two) in the estimated amount of \$16,600,000.

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 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 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 School Facilities 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."

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 new money or 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 Series 2002 Bonds and all Parity Bonds issued may not exceed \$130,000,000; 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.

The Bond Indenture require that as a precondition to the issuance of Parity Bonds that:

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

b. The District has received a certificate from one or more Special Tax Consultants which, when taken together, certify that the amount of the maximum Special Taxes that may be levied pursuant to the Rate and Method in each remaining Bond Year based only on the Taxable Property (as such term is defined in the Rate and Method) existing as of the date of such certificate is at least 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, provided, however, there shall be excluded from such calculation the Special Taxes on any parcel then delinquent in the payment of Special Taxes; and provided further that, for purposes of making the certifications required by this paragraph, the Special Tax Consultant may rely on reports or certificates of such other persons as may be acceptable to the District, Bond Counsel and the underwriter of the proposed Parity Bonds;

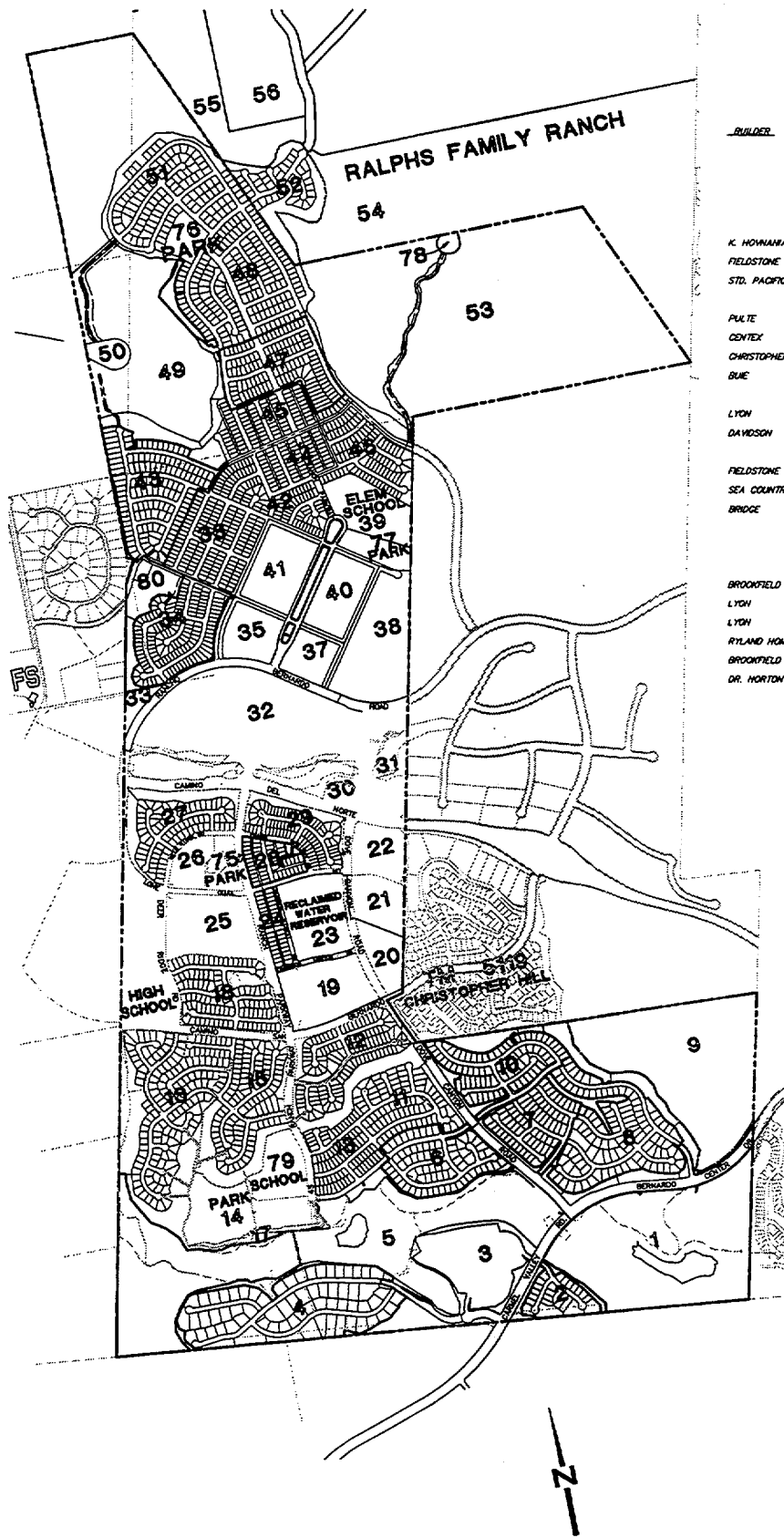
c. Except in the case of the issuance of Parity Bonds to refund Outstanding Bonds or Parity Bonds, the District has received an Appraisal indicating that (1) the aggregate appraised value of all Taxable Property within the District is not less than three (3) times the aggregate amount of Land Secured Debt (as defined in the Bond Indenture) allocable to such Taxable Property and (2) the aggregate appraised value of all Undeveloped Property within the District is not less than 2.5 times the aggregate amount of Land Secured Debt allocable to such Undeveloped Property; and

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

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.



BUILDER	PLANNING AREA NUMBER	DEVELOPMENT SUMMARY		
		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. HOWNANAN	6	SFD	70 x 105	73
FIELDSTONE	7	SFD	60 x 105	65
STD. PACIFIC	8	SFD	65 x 125	105
	9	OPEN SPACE		-
PULTE	10	SFD	60 x 105	75
CENTEX	11	SFD	60 x 105	75
CHRISTOPHER	12	5067-6	50 x 100	108
BLUE	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 98	103
SEA COUNTRY	19	5266 RY9		133
BRIDGE	20	MF LOW C34		120
	21	WATER RECLAMATION PLANT		-
	22	COMMERCIAL C36		-
	23	RECLAIMED WATER RESERVOIR		-
BROOKFIELD HOMES	24	5067-8	50 x 103	34
LYON	25	5256 RY-12		202
LYON	26	5258 RY-9		54
RYLAND HOMES	27	5067-1	60 x 100	75
BROOKFIELD HOMES	28	5067-7	50 x 103	46
DR. NORTON	29	5067-2	42 x 100	80
	30	COMMERCIAL C35		-
	31	COMMERCIAL C35		-
	32	COMMERCIAL C34/MF18		550
	33	COMMERCIAL C35		-
	34	SFD	45 x 90	133
	35	MF RM-29		280
	36	SFD	50 x 100	127
	37	MF RM-29		220
	38	MF RY-14		300
	39	ELEMENTARY SCHOOL		-
	40	MF RY-18		270
	41	SFD RY-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		-
	75	PARK		-
	76	PARK		-
	77	PARK		-
	78	WATER TANK		-
	79	SCHOOL		-
	80	OPEN SPACE/DETENTION BASIN		-
	64	RALPHS FAMILY RANCH (NOT SHOWN)		11
TOTAL				4715

SEPTEMBER 5, 2002



4S RANCH
MASTER DEVELOPMENT PLAN

COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH)

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 project is located approximately 8 miles east of Interstate 5 and approximately 2 miles west of Interstate 15. The Community Facilities District lies with 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.

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*, the initial phase of development, 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 Two* 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 Three* is located north of the mixed-use district, 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 located north of Neighborhood Three and 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.

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 February 17, 1998 the Board of Education adopted Resolution No. 63-98 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein pursuant to a separate Rate and Method of Apportionment of Special Tax for the Community Facilities District. On the same day the Board of Education adopted Resolution No. 64-98 stating its intention to incur bonded indebtedness in an amount not to exceed \$130,000,000 with respect to the Community Facilities District. The Community Facilities District No. 6 Rate and Method will finance School Facilities. See "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2002 BONDS" herein.

Resolution of Formation: Immediately following a noticed public hearing on March 24, 1998, the Board of Education adopted Resolution No. 74-98-A (the "Resolution of Formation"), which established 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.

Resolution of Necessity: On March 24, 1998 the Board of Education adopted Resolution No. 75-98-A declaring the necessity to incur bonded indebtedness in an amount not to exceed \$130,000,000 with respect to the Community Facilities District and submitting the proposition to the qualified electors of the Community Facilities District.

Landowner Election and Declaration of Results: On March 24, 1998, 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 \$130,000,000 in bonds to finance the acquisition and construction of the School Facilities. The qualified electors within the Community Facilities District also approved the levy of a special tax in accordance with the Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

On March 24, 1998, the Board of Education adopted Resolution No. 77-98-A 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 March 27, 1998.

Ordinance Levying Special Taxes: On April 13, 1998, the Board of Education adopted an Ordinance No. 98-6 levying the Special Tax within the Community Facilities District.

Resolution Authorizing Issuance of the 2002 Bonds: On August 19, 2002 the Board of Education adopted Resolution No. 15-2003 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 Ranch 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 terminate December 31, 2003 and may be extended for an additional year. The work required 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 Project. 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 Project sites for the purposes of construction and otherwise effecting the structure, improvements and facilities comprising the Project, including but not limited to grading, the construction of infrastructure and public facilities related to the Project (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 Project in a manner consistent with the County's approved Specific Plan, and applicable rules, regulations and official policies. The Project 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.

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 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.

Development Status and Current Entitlement

The Community Facilities District encompasses approximately 553 net residential acres which will include attached and detached single family units, apartments, commercial property, parks and school sites. Single family detached and attached homes are being offered for sale in the Community Facilities District by a number of homebuilders, including William Lyon Homes, Fieldstone Communities, PLC 4S Ranch, LLC, Davidson-Rancho Bernardo, CRV 4S Ranch, LP, Brookfield Homes, Ryland Homes, and DR Horton. At build out, the Community Facilities District is estimated to include approximately 4,574 taxable units (i.e., Detached Units and Attached Units), 141 Affordable Units, approximately 550,000 square feet of commercial property and no industrial property. Under the Indenture, no Special Taxes are levied on Affordable Units and no Special Taxes derived from Commercial/Industrial Property are pledged to the payment of the Bonds.

Special Tax Collections

The maximum Special Tax on Developed Property authorized for the 2002-03 Fiscal Year in the Community Facilities District is \$2,070.28 for a Detached Unit and \$915.70 for an Attached Unit. For the 2001-02 Fiscal Year, Special Taxes in the amount of approximately \$190,790 were levied against 94 Detached Units in the Community Facilities District. Of those parcels, none were delinquent as of July 1, 2002. For the 2002-03 Fiscal Year, Special Taxes in the amount of approximately \$801,198 were levied against 387 Detached Units in the Community Facilities District. For Fiscal Years 2001-02 and 2002-03, no Special Taxes were levied on Undeveloped Property. Special Taxes may be levied on Undeveloped Property in Fiscal Year 2003-04.

Table 1 below sets forth the Special Tax collections for Fiscal Years 2001-02 and 2002-03, all of which was levied on Developed Property.

Table 1
Poway Unified School District
Community Facilities District No. 6
Special Tax Collections⁽¹⁾
(As of July 1)

Fiscal Year Ending June 30	Residential Developed Units	Total Special Taxes Levied	Total Special Taxes Collected	Number of Special Tax Delinquencies	Amount of Special Tax Delinquencies	Percentage of Special Taxes Delinquent
2002	94	\$190,790	\$190,790	0	\$0.00	0.0%
2003	387	801,198	N/A	—	—	—

⁽¹⁾ Delinquency information is provided to the School District by the County of San Diego. First year of levy was Fiscal Year 2001-02.

Source: David Taussig & Associates, Inc.

Table 2 below sets forth the Special Taxes levied in Fiscal Year 2001-02 in the Community Facilities District.

Table 2
Poway Unified School District
Community Facilities District No. 6
2001-02 Special Tax Levy on Property
by Property Owner⁽¹⁾

Property Owner	Number of Units	Total Special Tax Levy	Parcels Delinquent	Percent Delinquent
Individual Homeowners	45	\$91,335.60	0	0%
Merchant Builders	<u>49</u>	<u>99,454.32</u>	<u>0</u>	<u>0%</u>
Total	94	\$190,789.92	0	0%

⁽¹⁾ All Special Taxes in FY 2001-02 were levied on Detached Units.

Source: David Taussig & Associates, Inc.

Table 3 sets forth the Special Taxes levied in Fiscal Year 2002-03, all of which was on Developed Property in the Community Facilities District. The actual allocation to the Merchant Builders will decrease as merchant builders sell completed homes to individual homeowners during Fiscal Year 2002-03.

Table 3
Poway Unified School District
Community Facilities District No. 6
Fiscal Year 2002-03⁽¹⁾ Special Tax Levy
on Developed Property

Property Owner ⁽²⁾	Number of Units	Special Tax Rate	Total Special Tax Levy	Percent of Levy
Individual Homeowners	226	\$2,070.28	\$467,883	58.4%
Merchant Builders	<u>161</u>	2,070.28	<u>333,315</u>	<u>41.6%</u>
Total	387		\$801,198	100.0%

⁽¹⁾ All Special Taxes in Fiscal Year 2002-03 were levied on Detached Units.

⁽²⁾ Property Ownership based on Fiscal Year 2002-03 Assessor Roll as of January 1, 2002.

Source: David Taussig & Associates, Inc.

Interest on the 2002 Bonds is capitalized through March 1, 2003 and Special Taxes were levied only on Developed Property in Fiscal Year 2002-03.

Property Ownership

Based on the Appraisal, as of May 1, 2002 there were approximately 424 homes completed or under construction. The allocation of Developed Property will increase as more permits are issued before January 1, 2003 which is the date when property is considered Developed Property according to the Rate and Method of Apportionment. 4S Kelwood has indicated that as of August 30, 2002, it believes at least 650 building permits for Detached Units have been issued. As of August 30, 2002, 757 certificates of compliance for Detached Units have been issued by the School District. A certificate of compliance is a certificate issued by the School District and is required before a builder is issued a building permit by the County. The certificate of compliance expires if the building permit is not issued within 30 days. The following table sets forth certain information concerning those parcels levied upon in Fiscal Year 2002-03.

Table 4
Poway Unified School District
Community Facilities District No. 6
Top Owners of Taxable Property
And Allocation of Special Tax Liability
Fiscal Year 2002-03

	Property Owner Name ⁽¹⁾	Number of Units	Aggregate Special Tax	Percent of Tax Obligation ⁽²⁾
1	William Lyon Homes (Providence)	20	\$41,406	5.2%
	William Lyon Homes (Tanglewood)	0	0	0.0
	William Lyon Homes (Summerwood)	0	0	0.0
2	Fieldstone Communities	17	35,195	4.4
3	PLC 4S Ranch, LLC	17	35,195	4.4
4	Davidson-Rancho Bernardo ⁽³⁾	55	113,865	14.3
5	CRV 4S Ranch, LP	0	0	0.0
6	Brookfield Homes	25	51,757	6.5
7	Ryland Homes	22	45,546	5.7
8	DR Horton	5	10,351	1.3
9	Individual Homeowners	<u>226</u>	<u>467,883</u>	<u>58.4</u>
	Total	387	\$801,198	100.0%

⁽¹⁾ Ownership based on 2002-03 Assessor Roll.

⁽²⁾ Total may not add due to rounding.

⁽³⁾ 4S Kelwood is listed as the owner of some property in PA 16 but ownership transferred to Davidson in June 2002.

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 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. 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. Table 5 below sets forth the name of 4S Kelwood and Merchant Builders and the name(s) of the project(s) being developed by each of 4S Kelwood and the Merchant Builders.

Table 5
Community Facilities District No. 6
of the Poway Unified School District
Property Ownership and Development Status

Part I

Name of Landowner/ Developer	Planning Area/ Development Name	Total Number of Units	Units Completed or Under Construction as of May 1, 2002 ⁽¹⁾	Status of Maps	Status of Development as of May 1, 2002
<i>Neighborhood 1</i>					
William Lyon Homes	Summerwood ⁽¹⁾	95	0	Tentative Map	0 units sold, 0 units complete (0 models), 0 units under construction
William Lyon Homes	Tanglewood ⁽¹⁾	161	0	Tentative Map	0 units sold, 0 units complete (0 models), 0 units under construction
William Lyon Homes	Providence at 4S Ranch	123	63	Final Map	21 units sold, 13 units complete (4 models, 8 production units in escrow), 29 units under construction (26 of which are in escrow), 60 vacant lots
Fieldstone Communities	Homestead	103	53	Final Map	28 units sold, 3 units complete (3 models), 22 units under construction (19 of which are in escrow), 50 vacant lots of which 10 are sold
PLC 4S Ranch, LLC	Legacy	108	17	Final Map	0 units sold, 3 units complete (3 models), 14 units under construction (14 of which are in escrow), 91 vacant lots
Davidson- Rancho Bernardo	Talavera	126	79	Final Map	22 units sold, 4 units complete (models), 90 units under construction (54 of which are in escrow), 10 vacant lots as of 5/31/01
CRV 4S Ranch, LP	Garden Gate	133	0	Tentative Map	0 units sold, 0 units complete (0 models), 0 units under construction
Brookfield Homes	Amherst	80	60	Final Map	16 units are sold, 10 units complete (3 models), 34 units under construction, 20 vacant lots
Ryland Homes	Ryland Heritage	75	72	Final Map	48 units sold, 6 units complete (3 models), 18 units under construction (17 of which are in escrow), 3 vacant lots
DR Horton	Cedar Creek	80	80	Final Map	69 units sold, 3 units complete (3 models), 8 units under construction (8 of which are in escrow)
4S Kelwood		<u>120</u>	<u>0</u>	Tentative Map	Negotiating sale to merchant builder (Affordable Units) ⁽²⁾
Total		1,204	424		

⁽¹⁾ Based on Appraisal.

⁽²⁾ As Affordable Units, these developments will not be subject to the levy of the Special Taxes.

Source: Development Plan from 4S Kelwood.

Part II

Name of Landowner/ Developer	Planning Area/ Development Name	Total Number of Units	Units Completed or or Under Construction	Net Taxable Acreage	Status of Maps	Status of Development as of May 1, 2002
<i>Neighborhood 2</i>						
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	16.61	Final Map	Graded lots – under contract with K. Hovnanian Homes. Final Map recorded August 21, 2002
4S Kelwood	7	65	0	12.44	Tentative Map	Raw land – under contract with Fieldstone Communities
4S Kelwood	8	105	0	28.23	Tentative Map	Raw land
4S Kelwood	10	75	0	15.31	Tentative Map	Raw land – under contract with Pulte Homes
4S Kelwood	11	75	0	15.12	Final Map	Graded lots – under contract with Centex Homes. Final Map recorded August 21, 2002
4S Kelwood	13	<u>82</u>	<u>0</u>	<u>10.79</u>	Final Map	Graded lots – under contract to Buie Communities. Final Map recorded August 21, 2002
Subtotal		565	0	140.92		
<i>Neighborhood 3</i>						
4S Kelwood	34	133	0	17.46	Tentative Map	Raw land
4S Kelwood	35	280	0	12.75	Tentative Map	Raw land
4S Kelwood	36	127	0	15.79	Tentative Map	Raw land
4S Kelwood	37	220	0	9.96	Tentative Map	Raw land
4S Kelwood	38	300	0	28.09	Tentative Map	Raw land
4S Kelwood	40	270	0	16.13	Tentative Map	Raw land
4S Kelwood	41	160	0	15.01	Tentative Map	Raw land
4S Kelwood	42	96	0	11.62	Tentative Map	Raw land
4S Kelwood	43	131	0	23.92	Tentative Map	Raw land
4S Kelwood	44	60	0	7.38	Tentative Map	Raw land
4S Kelwood	45	81	0	10.05	Tentative Map	Raw land
4S Kelwood	46	101	0	14.36	Tentative Map	Raw land
4S Kelwood	47	<u>112</u>	<u>0</u>	<u>16.65</u>	Tentative Map	Raw land
Subtotal		2,071	0	181.71		
<i>Neighborhood 4</i>						
4S Kelwood	32	550	0	N/A	Tentative Map	Raw land, proposed for apartment units (includes 21 Affordable Units)
4S Kelwood	48	175	0	29.15	Tentative Map	Raw land
4S Kelwood	51	114	0	22.94	Tentative Map	Raw land
4S Ranch Company 600, L.P.		<u>36</u>	<u>0</u>	<u>33.0</u>	Tentative Map	Raw land, Tentative map recorded August 22, 2002
Subtotal		<u>875</u>	<u>0</u>	85.09		
Grand Total		<u>4,715</u>	<u>424</u>			

Source: Development Plan from 4S Kelwood.

Information with Respect to 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 April 1, 2002, 4S Kelwood has sold land to merchant builders for approximately 1,084 single family detached dwelling units.

Status of Permits and Approvals. 4S Kelwood has obtained approvals and permits for grading of approximately 300 acres and for public improvements required for development of Neighborhood One and portions of Neighborhood Two. Final maps were approved for all 1,204 units in Neighborhood One in 2000 and 2001. 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 the fourth quarter of 2002 and an additional 90 units in the second quarter of 2003. Final maps are estimated to be recorded in Fiscal Year 2003-2004 in Neighborhood Three and in Fiscal Year 2004-2005 in Neighborhood Four.

4S Kelwood has rough graded the portions of the property sold to merchant builders. Backbone infrastructure improvements, including water, sewer, drainage, streets 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 June 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. 4S Kelwood estimates that total development and infrastructure costs, including in-tract improvements will aggregate approximately \$350 million.

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.

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 June 30, 2002, the unsecured loans from the partners to the project aggregated approximately \$45.3 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.

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.

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 Special Taxes for which it is responsible,
- to the actual knowledge of 4S Kelwood, neither it nor any of its Affiliates 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,

- 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 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 6 below summarizes certain information regarding the planned development within Neighborhood 1 of the Community Facilities District as of May 1, 2002, the date of the estimated market value set forth in the Appraisal.

Table 6
Poway Unified School District
Community Facilities District No. 6
Active or Pending Projects⁽¹⁾
As of May 1, 2002

Merchant Builder	Project	Area	Total Units	Available Units in Inventory
William Lyon Homes	Providence at 4S Ranch	Neighborhood 1	123	102
William Lyon Homes	Tanglewood	Neighborhood 1	161	161
William Lyon Homes	Summerwood	Neighborhood 1	95	95
Fieldstone Communities	Homestead	Neighborhood 1	103	75
Fieldstone Communities	Cambridge	Neighborhood 2	65	65
PLC 4S Ranch, LLC	Legacy	Neighborhood 1	108	108
Davidson-Rancho Bernardo	Talavera	Neighborhood 1	126	107
CRV 4S Ranch, LP	Garden Gate	Neighborhood 1	133	133
Brookfield Homes	Amherst	Neighborhood 1	80	64
Ryland Homes	Ryland Heritage	Neighborhood 1	75	27
DR Horton	Cedar Creek	Neighborhood 1	80	11
Bridge Housing		Neighborhood 1	120	120 ⁽²⁾
Buie Communities		Neighborhood 2	82	82
Centex Homes		Neighborhood 2	75	75
Total			1,426	1,225

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

(2) Affordable Units are not subject to the Special Tax.

Source: Appraisal.

4S Kelwood is beginning the development of Neighborhood 2 and has entered into a contract with Buie Communities for the sale of land for development of approximately 82 lots. 4S Kelwood has executed the terms of contracts with Centex Homes, K. Hovnanian Homes, Pulte Homes and Fieldstone Communities and is negotiating a contract with Standard Pacific for the sale of land in Neighborhood 2.

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.

Individual Owners. As of May 1, 2002, the dated of the estimated market value set forth in the Appraisal, the 201 owner-occupied homes are shown in Table 7 below with the project name, location and average appraised price.

Table 7
Poway Unified School District
Community Facilities District No. 6
Completed and Occupied Homes

Builder	Project	Area	Closed Sales	Aggregate Sales Value	Average Appraised Home Value
William Lyon Homes	Providence at 4S Ranch	Neighborhood 1	21	\$12,390,000	\$590,000
Fieldstone Communities	Homestead	Neighborhood 1	28	15,120,000	540,000
Brookfield Homes	Amherst	Neighborhood 1	16	7,360,000	460,000
Ryland Homes	Ryland Heritage	Neighborhood 1	48	31,210,000	650,000
DR Horton	Cedar Creek	Neighborhood 1	69	31,740,000	460,000
Davidson-Rancho Bernardo	Talavera	Neighborhood 1	<u>19</u>	<u>12,160,000</u>	640,000
Total			201	\$109,980,000	

Source: Appraisal.

Neighborhood One - Merchant Builder Sales.

Neighborhood One will comprise approximately 1,204 residential units and 7 acres of commercial property. It also includes approximately a 6-acre park site and a 10-acre elementary school site. As of May 1, 2002, 4S Kelwood has sold approximately 1,084 lots for single family detached homes in Neighborhood One to 8 Merchant Builders. 4S Kelwood is negotiating with a ninth merchant builder for the sale of land and construction of approximately 120 attached Affordable Units which are not subject to the Special Tax.

William Lyon Homes.

Summerwood. William Lyon Homes, a Delaware corporation, based in Orange, California ("William Lyon Homes"), acquired the land for this tract and the adjacent Tanglewood tract from 4S Kelwood in December, 2001. The land is currently being graded for a 95-lot condominium-type subdivision. It is planned to be developed with a tract of detached homes called Summerwood. The homes will range in size from 1,579 square feet to 1,898 square feet, and the projected pricing will start in the mid to high \$300,000's. Average lot premiums are projected to be \$7,500.

Tanglewood. William Lyon Homes acquired the land for this tract and the adjacent Summerwood tract from 4S Kelwood in December, 2001. The land is currently being graded for a 161-lot subdivision. It is planned to be developed with a tract of detached homes called Tanglewood. The product is described as detached condominiums which will range in size from 1,310 square feet to 1,675 square feet, and the projected pricing will start in the low \$300,000's. Average lot premiums are projected to be \$4,000.

Providence. William Lyon Homes acquired the first takedown of 66 lots from 4S Kelwood in December, 2000 and the second takedown of 57 lots in August, 2001. These 123 lots are being developed with a tract of homes called Providence at 4S Ranch. As of May 1, 2002 there were 21 completed-sold homes, 13 completed-unsold homes (including the 4 models), 29 homes under construction and 60 vacant lots. The homes being constructed by William Lyon Homes are expected

to average 3,412-3,839 square feet with an average lot size of approximately 6,000 square feet. The homes are proposed to sell for approximately \$555,900 to \$605,900, excluding lot premiums.

William Lyon Homes is a New York Stock Exchange listed corporation traded under the ticker symbol "WLS." William Lyon Homes is a leading national homebuilder. Established in 1956, William Lyon Homes builds homes in five geographic markets in three states and is one of the largest single-family on-site homebuilders in the United States. William Lyon Homes's homebuilding segment specializes in the sale and construction of single-family attached and detached housing. In California, William Lyon Homes markets its products under several brand names. William Lyon Homes Internet home page is located at lyonhomes.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.*

Fieldstone Communities (Homestead; Planning Area 18 in Neighborhood One and Cambridge; Lot 7 in Planning Area 2 in Neighborhood Two). Fieldstone Communities, a California corporation, based in Newport Beach, California ("Fieldstone Communities"), acquired 103 lots in Planning Area 18 for its project named Homestead on approximately 16 net acres in December 1999 and is expected to acquire 65 lots in Lot 7 in Planning Area 2 on approximately 11 net acres. All 65 such lots are scheduled to close in December, 2002. The homes to be constructed by Fieldstone Communities in Neighborhood One are expected to average 2,860 to 3,300 square feet with an average lot size of approximately 6,000 square feet. The 28 completed homes sold for an average of \$531,600.

Fieldstone Communities is a privately held company. Established in 1981, 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.*

PLC 4S Ranch, LLC (Christopher Homes) (Legacy; Planning Area 12 in Neighborhood One). PLC 4S Ranch, LLC, an affiliate of Christopher Homes, a California corporation based in Newport Beach, California ("Christopher"), acquired 108 lots on approximately 14 net acres. All 108 such lots closed in July, 2001. The homes are expected to average 2,829-3,288 square feet with an average lot size of approximately 5,000 square feet. The homes are proposed to sell for approximately \$485,000 to \$535,000.

PLC 4S Ranch, LLC and Christopher Homes are subsidiaries of the PLC Group of Companies. Established in 1994, Christopher Homes builds homes in Orange, Riverside, San Bernardino and San Diego Counties in California. Christopher Homes specializes in the sale and construction of single-family attached and detached housing. Internet home pages are located at plcland.com and christopher-homes.com. *These Internet addresses are included for reference only and the information on such Internet sites is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Davidson-Rancho Bernardo, L.P. (Talavera; Planning Area 16 in Neighborhood One). Davidson-Rancho Bernardo, L.P., a California limited partnership, based in San Diego, California ("Davidson-Rancho Bernardo"), acquired 126 lots on approximately 25 net acres. All 126 such lots were closed by June, 2002. The homes to be constructed by Davidson-Rancho Bernardo are expected to average 3,451-4,053 square feet with a minimum lot size of approximately 7,000 square feet. The homes are proposed to sell for approximately \$575,000 to \$ 800,000.

Davidson-Rancho Bernardo, L.P. is controlled by an affiliate of Hearthstone, a California corporation and built by an affiliate of Davidson Communities LLC, a California limited liability company. The principal of Davidson Communities, LLC has specialized in building single-family attached and detached homes in San Diego County since 1979. Davidson Communities' Internet home page is located at davidsoncommunities.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.

CRV 4S Ranch, LP (Garden Gate; Planning Area 19 in Neighborhood One). CRV 4S Ranch, LP, a California limited partnership, acquired 133 lots on approximately 15 net acres. All 133 such lots closed in December, 2001. The product is described as detached homes in a condominium subdivision. Sea Country Homes, a California corporation, based in Carlsbad, California ("Sea Country Homes") is the developer and general contractor for the project. The homes are expected to average 1,900-2,300 square feet with an average lot size of approximately 3,200 square feet. The homes are proposed to sell for approximately \$360,000 to \$400,000.

Brookfield Bernardo LLC (Amherst; Planning Areas 24 and 28 in Neighborhood One). Brookfield Bernardo LLC, a California limited liability company based in Del Mar, California ("Brookfield Bernardo"), acquired 80 lots on approximately 10 net acres. All 80 such lots closed in March, 2001. The homes to be constructed by Brookfield Bernardo are expected to average 2,900-3,377 square feet with an average lot size of approximately 5,250 square feet. The average sales price of the 16 closed sales was approximately \$493,200.

Brookfield Bernardo is owned by Brookfield San Diego Holdings LLC, a Delaware limited liability company ("Brookfield San Diego Holdings"). Brookfield San Diego Holdings is a wholly owned subsidiary of Brookfield Homes of California Inc., a California corporation ("Brookfield Homes of California"). Brookfield Homes of California is a wholly owned subsidiary of Brookfield Homes Inc., a Delaware corporation ("Brookfield Homes Inc").

Brookfield Homes Inc has been building homes throughout North America since 1956 and operates in approximately five local markets in the United States. The company is a wholly owned subsidiary of Brookfield Properties Inc., a Delaware corporation ("Brookfield Properties"), which is publicly traded and headquartered in Toronto. Last year, Brookfield Properties ranked within the top twenty largest home builders in the United States based on the number of homes sold. It also operates a full service mortgage company for the convenience of its buyers. Originally the Canadian Arena Corporation, Brookfield Properties is now part of Canada's Brascan Mining conglomerate. Brookfield Properties Inc is listed on the NYSE under the ticker symbol "BPO." Financial information about Brookfield Properties is included in documents filed with the SEC, particularly in its Annual Report on Form 10-K and its most recent quarterly Report on Form 10-Q. Brookfield Properties Internet home page is located at brookfieldproperties.com. Brookfield Homes' Internet home address is located at brookfieldhomes.com. *These Internet addresses are included for reference only and the information on such Internet sites is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Ryland Homes (Ryland Heritage; Planning Area 27 in Neighborhood One). Ryland Homes of California, Inc., a California corporation based in Calabasas, California ("Ryland Homes"), has acquired 75 lots on approximately 12 net acres. All 75 such lots closed in December, 1999. The homes to be constructed by Ryland Homes are expected to average 3,643-4,039 square feet with an average lot size of approximately 6,000 square feet. The homes sell for approximately \$618,990 to \$677,990. The average price of 33 of the 48 closed sales available through the Assessor's data was approximately \$600,700 which amount is based on much earlier sales.

As of September 20, 2002, 69 of the 75 homes have closed escrow and been sold to individual home buyers and the remaining 6 homes are expected to close escrow by the end of October 2002.

DR Horton (Cedar Creek; Planning Area 29 in Neighborhood One). DR Horton San Diego Holding Company, Inc., a California corporation based in Encinitas, California ("DR Horton"), acquired 82 lots on approximately 9 net acres. All 80 such lots closed in 2000. The homes constructed by DR Horton are expected to average 2,156-2,712 square feet with an average lot size of approximately 4,200 square feet. The homes sold for an average of \$452,000.

As of August 15, 2002, 79 of the 80 homes have closed escrow and been sold to individual home buyers.

Neighborhoods Two Through Four.

Neighborhood Two is expected to be comprised of approximately 565 residential units, a 22 acre community park and a 23 acre middle school. 4S Kelwood has entered into a sales contract with Buie Communities for approximately 82 lots in Neighborhood Two and with Fieldstone Communities for approximately 65 lots in Neighborhood Two. The sale to Buie Communities is estimated to conclude in the third quarter of 2002 and the sale to Fieldstone Communities is estimated to conclude in the fourth quarter of 2002. 4S Kelwood has entered into or is negotiating the sale of parcels in Neighborhood Two to other merchant builders. These include Centex Homes, K. Hovnanian Homes, Fieldstone Communities, Pulte Homes and Standard Pacific. Construction of homes have not yet commenced 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.

Neighborhood Two is proposed to be Improvement Area A of the Community Facilities District and to be subject to an additional special tax for Improvement Area Facilities as described in "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods."

Neighborhood Three is expected to be comprised of approximately 2,071 residential units and a 5 acre park. 4S Kelwood has not yet commenced negotiating the sale of parcels in Neighborhood Three. The land for Neighborhood Three 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 Three is proposed to be Improvement Area B of the Community Facilities District and to be subject to an additional special tax for Improvement Area Facilities as described in "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods."

Neighborhood Four is expected to be comprised of approximately 325 detached residential units and a 4-acre park. In addition, 4S Commons (PA32) commercial property in Neighborhood Four will house approximately 550 apartment units, of which 21 are expected to be Affordable Units. The remaining 529 apartment units are expected to be subject to the Special Tax as Attached Units. 4S Kelwood has not yet commenced negotiating the sale of parcels in Neighborhood Four. The land for Neighborhood 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 Four (except for approximately 36 proposed Detached Units on land not owned by 4S Kelwood) is proposed to be Improvement Area C of the Community Facilities District and to be subject to an additional special tax for Improvement Area Facilities as described in "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods."

Appraised Property Values

The purpose of the Appraisal was to prepare a complete appraisal of the taxable properties within Neighborhood One and a limited appraisal of the taxable properties within Neighborhoods Two through Four. The taxable properties include the completed sold homes, homes under construction, and vacant residential land, excluding the Affordable Units and excluding all commercial land. In Neighborhood One, the taxable properties include 10 separate tracts which will contain a total of approximately 1,084 Detached Units, of which as of May 1, 2002 there were 248 completed homes, 176 homes under construction, and vacant lots or partially graded acreage for the remaining 660 units. In Neighborhoods Two through Four, the taxable properties included 23 residential sites (Planning Areas) which are planned for a total of approximately 2,762 dwelling units in a broad spectrum of housing from condominiums (categorized as Attached Units) at 29 per acre to Detached Units on 7,000 square foot lots. The Appraisal estimates the market value of each tract in Neighborhood One and the minimum market value of the bulk ownership comprising Neighborhoods Two through Four. The valuation of the land comprising Neighborhoods Two through Four consists of a Limited Appraisal for the purpose of estimating the minimum market value. Thus, the value is subject to refinement if a Complete Appraisal or more thorough analysis were to be made. On August 28, 2002, the Appraiser confirmed that, based on his knowledge of the current residential market in the general area, and based on the significant amount of development which has occurred in 4S Ranch subsequent to May 1, 2002, the current value would be at least as high as the value reported in the Appraisal. The Appraisal is based on certain assumptions set forth in APPENDIX C hereto. The Appraisal does not

value the property expected to be developed with approximately 120 Affordable Units in Neighborhood One, the land proposed for an approximately 550 unit apartment complex in Neighborhood Four (529 of the apartment units are expected to be subject to the Special Tax as Attached Units and 21 are expected to be classified as Affordable Units) and the land encompassing approximately 36 proposed Detached Units which are located in Neighborhood Four and owned by 4S Ranch Company 600, L.P., an entity which is not affiliated with 4S Kelwood. The Affordable Units are not subject to the levy of the Special Tax. The Attached Units will be subject to the levy of the Special Tax as Developed Property. The apartment unit site is within an area zoned for commercial property and as of August 30, 2002 is not subject to the levy of Special Tax as Undeveloped Property.

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 the Community Facilities District as of May 1, 2002, to be \$388,114,000. The market value includes the value of extensive grading and infrastructure improvements and homes completed or under construction in Neighborhood One.

The Appraisal estimated the value of the property in Neighborhood One in the Community Facilities District 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 May 1, 2002). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the 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 the Community Facilities District 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.

For the completed/sold homes in Neighborhood One, the Sales Comparison Approach is used to estimate the value of the homes on a mass appraisal basis. Actual sales prices of the subject homes are considered, which are considered to be supportable based on the sales activity within the subject tract, as well as the pricing and sales activity of other homes in 4S Ranch. This results in an aggregate value of the homes, reflecting that they are individually owned by the various homeowners.

The valuation of the completed/unsold homes is based on the value of completed/sold homes less a discount for sales and holding costs, etc., to reflect being part of a bulk ownership. The valuation of the homes under construction is based on consideration of an estimate of costs expended plus the value of the vacant lot. The valuation of the vacant lots is based on the Sales Comparison Approach, and considered as part of the larger tract. This approach considers recent sales of residential land or bulk lots from the general area in comparison to the subject property.

The bulk ownership in Neighborhoods Two to Four is valued by means of a discounted cash flow analysis. First, the land values of each of the 23 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 May 1, 2002, the Appraiser estimated that the market value of the property within the Community Facilities District (subject to the lien of the Special Taxes), including completed sold homes, homes under construction, and vacant residential land, was as follows:

Merchant Builder/ Developer	Tract Name/ Neighborhood	Market Value
William Lyon Homes	Providence – Neighborhood One	\$39,847,000
William Lyon Homes	Tanglewood – Neighborhood One	14,100,000
William Lyon Homes	Summerwood – Neighborhood One	10,450,000
Davidson-Rancho Bernardo	Talavera – Neighborhood One	42,944,000
Ryland Homes	Ryland Heritage – Neighborhood One	40,452,000
DR Horton	Cedar Creek – Neighborhood One	35,200,000
Fieldstone Communities	Homestead – Neighborhood One	32,239,000
Brookfield Homes	Amherst – Neighborhood One	23,634,000
PLC 4S Ranch, LLC	Legacy – Neighborhood One	23,483,000
CRV 4S Ranch, LP	Garden Gate – Neighborhood One	15,765,000
4S Kelwood	Neighborhoods Two – Four	<u>110,000,000</u>
Total		\$388,114,000

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

The \$388,114,000 market value reported in the Appraisal results in an estimated value-to-lien ratios of 15.4 to 1 with respect to the Community Facilities District calculated with respect to all direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2002 Bonds. The value-to-lien ratio of individual parcels will differ from the foregoing aggregate values. The foregoing value-to-lien estimate includes the value of the Undeveloped Property in Neighborhoods One through Four. Based on estimated debt service on the 2002 Bonds and the estimated number of building permits expected to be issued by January 1, 2003, the Community Facilities District does not anticipate levying a Special Tax in Fiscal Year 2003-04 on the Undeveloped Property. The foregoing value to lien estimate does not include the overlapping indebtedness expected to be incurred with respect to the three Improvement Areas which generally correspond to Neighborhood Two (Improvement Area A), Neighborhood Three (Improvement Area B) and Neighborhood Four (Improvement Area C). (A portion of Neighborhood Four encompassing approximately 36 proposed Detached Units is not within the proposed boundaries of Improvement Area C.) The first series of bonds for Improvement Area Facilities are estimated to be issued in the fourth quarter of 2002 or first quarter of 2003 for Improvement Area A (Neighborhood Two) in the estimated amount of \$16,600,000. On August 28, 2002, the Appraiser confirmed that, based on his knowledge of the current residential market in the general area, and based on the significant amount of development which has occurred in 4S Ranch subsequent to May 1, 2002, the current value would be at least as high as the value reported in the Appraisal. See "SECURITY FOR THE 2002 BONDS – Rate and Method – Proposed Improvement Area Rates and Methods," "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood and the Merchant Builders," "Direct and Overlapping Debt" and BONDOWNERS' RISKS – Appraised Values" herein and APPENDIX C – "Summary Appraisal Report and Update Letter" 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 by Project

For Fiscal Year 2002-03, the Special Tax was only levied on Developed Property, i.e., assessor's parcels for which building permits for new construction were issued on or before January 1, 2002. Based on the Assessor's Roll for Fiscal Year 2002-03 and property ownership listed therein as of January 1, 2002, the Special Tax Consultant estimated that Merchant Builders owned in the aggregate approximately 161 and individual homeowners owned 226 of the approximately 387 lots in the Community Facilities District categorized as Developed Property and taxed in Fiscal Year 2002-03. Based on the foregoing allocations, the Merchant Builders were responsible for approximately 41.6% of the Fiscal Year 2002-03 Special Tax levy. However, such percentage has declined, and will decline further, as sales of the 387 homes occur during calendar year 2002 and as individual homeowners acquire such homes.

Based on estimated aggregated debt service on the 2002 Bonds and Administrative Expenses which combined total approximately \$1,413,000 for the bond year ending September 1, 2004, it is estimated that 670 building permits must be issued by January 1, 2003, for the Fiscal Year 2003-04 Special Tax levy to be on Developed Property only, with no levy on Undeveloped Property. 4S Kelwood has indicated that as of August 30, 2002, it believes at least 650 building permits for Detached Units have been issued. As of August 30, 2002, the School District has issued 757 certificates of compliance for Detached Units to the Merchant Builders, which is an indication that additional building permits beyond the 650 estimate by 4S Kelwood will be issued in the third quarter of 2002, and in advance of the January 1, 2003 date for determining which parcels are Developed Property. Based on the foregoing information, the Community Facilities District estimates that no Special Tax will be levied on Undeveloped Property in Fiscal Year 2003-04. 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 Merchant Builders will be responsible. As a result, in determining the investment quality of the 2002 Bonds, Bondowners should assume that a portion of the Special Taxes in the Community Facilities District will be paid by the Merchant Builders until such time as the parcels are transferred to individual owners. Were it necessary, the Community Facilities District is authorized to levy 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 8 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District prepared by California Municipal Statistics, Inc. and dated April 1, 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 City or 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 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 the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in the Community Facilities District. 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 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 the Community Facilities District 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 8
Community Facilities District No. 6
of the Poway Unified School District

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 6

2001-02 Assessed Valuation: \$71,918,959

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/02</u>
San Diego County Water Authority	0.038%	\$ 1,224
Metropolitan Water District	0.007	35,215
Poway Unified School District Community Facilities District No. 6	100.	- (1)
Olivenhain Municipal Water District Assessment District No. 96-1	0.883	186,357
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$222,796
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	0.037%	\$196,668
San Diego County Pension Obligations	0.037	104,673
San Diego County Superintendent of Schools Obligations	0.037	785
Palomar Community College District General Fund Obligations	0.166	16,168
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$318,294
 COMBINED TOTAL DEBT		 \$541,090 (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 2001-02 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	0.31%
Combined Total Debt	0.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

Source: California Municipal Statistics, Inc.

Table 9 below sets forth estimated Fiscal Year 2002-03 overall tax rates projected to be applicable to a Detached Unit. Table 9 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 9
Community Facilities District No. 6)
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit)

<u>Assessed Valuation and Property Taxes</u>		<u>Percent of Total AV</u>	<u>Projected Amount</u>	<u>Maximum Amount</u>
Estimated Sales Price	\$450,000			
Homeowner's Exemption	(7,000)			
Net Assessed Value	\$443,000			
AD VALOREM PROPERTY TAXES				
General Purposes		1.00000%	\$4,430.00	\$4,430.00
County Water Authority Debt Service		0.00083%	3.68	3.68
Metropolitan Water District Debt Service		0.00770%	34.11	34.11
Total Ad Valorem Property Taxes		1.00853%	\$4,467.79	\$4,467.79
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽¹⁾				
Poway Unified School District CFD No. 6			\$2,070.28	\$2,070.28
Fire District Special Tax			12.50	12.50
County Service Area No. 83			90.00	90.00
Olivenhain Sewer Service Charge			480.00	480.00
Olivenhain Assessment District No. 96-1			54.00	54.00
County Mosquito and Rat Control			2.28	2.28
Metropolitan Water Standby ⁽²⁾			11.50	11.50
CWA Water Availability Charge			10.00	10.00
PROJECTED TOTAL PROPERTY TAXES			\$7,198.35	\$7,198.35
Projected Total Effective Tax Rate (as % of Net Assessed Value)				1.62%

⁽¹⁾ All assessment rates are projected Fiscal Year 2002-03 amounts.

⁽²⁾ Assumes lot sizes of one acre or less.

Source: David Taussig & Associates, Inc.

Table 10 below sets forth estimated Fiscal Year 2002-03 overall tax rates projected to be applicable to a Detached Unit in Neighborhood Two assuming issuance of bonds by the Community Facilities District with respect to Improvement Area A. Table 10 also sets forth those entities with fees, charges, ad valorem taxes and special taxes regardless of whether those entities have issued debt.

Table 10
Community Facilities District No. 6
Proposed Improvement Area A
Encompassing Neighborhood Two
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit with 3,200 Building Square Feet)

<u>Assessed Valuation and Property Taxes</u>	<u>Percent of Total AV</u>	<u>Projected Amount</u>	<u>Maximum Amount</u>
Estimated Sales Price	\$520,000		
Homeowner's Exemption	<u>(7,000)</u>		
Assessed Value	\$513,000		
AD VALOREM PROPERTY TAXES			
General Purposes	1.00000%	\$5,130.00	\$5,130.00
County Water Authority Debt Service	0.00083%	4.26	4.26
Metropolitan Water District Debt Service	<u>0.00770%</u>	<u>39.50</u>	<u>39.50</u>
Total Ad Valorem Property Taxes	1.00853%	\$5,173.76	\$5,173.76
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽¹⁾			
Poway Unified School District CFD No. 6		\$2,070.28	\$2,070.28
Poway Unified School District CFD No. 6 Improvement Area A ⁽²⁾		\$1,640.00	\$1,640.00
Fire District Special Tax		12.50	12.50
County Service Area No. 83		90.00	90.00
Olivenhain Sewer Service Charge		480.00	480.00
Olivenhain Assessment District No. 96-1		54.00	54.00
County Mosquito and Rat Control		2.28	2.28
Metropolitan Water Standby ⁽³⁾		11.50	11.50
CWA Water Availability Charge		<u>10.00</u>	<u>10.00</u>
PROJECTED TOTAL PROPERTY TAXES		\$9,544.32	\$9,544.32
Projected Total Effective Tax Rate (as % of Assessed Value)			1.86%

⁽¹⁾ All assessment rates are projected Fiscal Year 2002-03 amounts.

⁽²⁾ Projected rate. Initial Improvement Area Special Tax is planned for Fiscal Year 2003-04.

⁽³⁾ 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 acre, or \$11.50 per parcel 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. Parcels with their own wells may be exempted from this assessment.

Olivenhain Municipal Water District. Olivenhain Municipal Water District formed Assessment District No. 96-1 to finance the water storage project. The special assessment is based on \$54/year per Single Family Home.

Olivenhain Municipal Water District Sewer Standby Charge. Olivenhain Municipal Water District imposes a sewer charge of \$480/year /Single Family Home. Sewer Standby Charge on vacant property is \$100/year/EDU allocation to property.

County Water Authority Standby Charge. All property in the Community Facilities District is subject to an annual direct assessment at the rate 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 an annual direct assessment on all property at the rate of approximately \$3 per parcel. This assessment is fixed unless there is a vote 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 the residents to control mosquito breeding and rodent activity.

Rancho Santa Fe Fire District Special Assessment. The Rancho Santa Fe Fire District established an assessment district which is authorized to levy an assessment for fire suppression services. The assessment is based on a current charge of \$2.50 per equivalent billing unit (EBU). Residential property is assigned 2 EBU's if vacant, and 5 EBU's if occupied.

CSA-83A Park Maintenance Assessment. The County Service Area is authorized to levy an assessment for park services. The assessment is based on a per equivalent billing unit (EBU) charge, subject to inflation base on the consumer price index. For residential property, a detached unit is 1 EBU, and Attached Units are 0.7 EBU. The projected Fiscal Year 2002-03 rate is expected to be approximately \$90.00 for a detached unit and \$63.00 for an Attached Unit.

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 School 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 the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the School 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 the Community Facilities District.

Risks of Real Estate Secured Investments Generally

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property in the event of sale or foreclosure; (ii) changes in real estate tax 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 387 lots categorized as Developed Property for Fiscal Year 2002-03, the Special Tax Consultant has estimated that the Merchant Builders were responsible for approximately 41.6% percent of the Fiscal Year 2002-03 Special Taxes. However, such percentage has declined, and will decline further, as sales of the 387 homes occur during calendar year 2002 and as individual homeowners acquire such homes. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development." If a Merchant Builder is unwilling or unable to pay the Special Tax 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 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 the Community Facilities District. The 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 "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – 4S Kelwood and the Merchant Builders – History of Property Tax Payment; Loan Defaults; Bankruptcy."

Failure to Develop Properties

Development of property within the Community Facilities District 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 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. Final maps have been recorded for all lots within Neighborhood One and for 230 of the 565 lots in Neighborhood Two. The property within the Community Facilities District 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 the Community Facilities District will

not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within the Community Facilities District. In addition, there is a risk that future governmental restrictions on land development within the Community Facilities District 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 in the Community Facilities District 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 the Community Facilities District and increase the length of time during which Special Taxes will be payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due. See "COMMUNITY FACILITIES DISTRICT NO. 6 (4S RANCH) – Appraised Property Values."

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

Special Taxes Are Not Personal Obligations

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 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 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 Special Tax 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 the Community Facilities District. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The School 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 the Community Facilities District should become delinquent in the payment of 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 the Community Facilities District 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 the Community Facilities District 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 the Community Facilities District 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 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 Special Taxes.

Furthermore, an inability to develop the land within the Community Facilities District as planned will reduce the expected diversity of ownership of land within the Community Facilities District, making the payment of debt service on the 2002 Bonds more dependent upon timely payment of the 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 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 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) – 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 Special Tax securing the 2002 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the 2002 Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority

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

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to a hazardous substance. See "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 March 27, 1998 as Document No. 1998-0169295. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a home in the Community Facilities District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

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 the Community Facilities District. Nevertheless, development within the Community Facilities District 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 the Community Facilities District. 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 the Community Facilities District 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 the Community Facilities District could cause the land values within the Community Facilities District to decrease substantially and could affect the willingness and ability of the owners of land to pay the Special Taxes when due or to proceed with development of land in the Community Facilities District. 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 the District 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 the Community Facilities District or reduce the value of undeveloped property. Failure to develop the vacant property in the Community Facilities District as planned, or substantial delays in the completion of the planned development of the property may increase the amount of Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due.

At present, other than the species covered by the Implementing Agreement and the Habitat Management Plan, the vacant property within the Community Facilities District 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 "THE COMMUNITY FACILITIES DISTRICT – 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 the Community Facilities District 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 Special Tax is a claim with regard to hazardous substances. In general, the owners and operators of parcels within the Community Facilities District 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 the Community Facilities District 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 1 and Neighborhood 2. In its opinion, each site could be developed as planned provided certain recommendations of the report were followed.

The value of the property within the Community Facilities District, 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 Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2002 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

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

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

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

delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

Except as set forth above under “SECURITY FOR THE 2002 BONDS – Special Taxes” and “ – Rate and Method” herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 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 School 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 Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See “SECURITY FOR THE 2002 BONDS – Rate and Method” herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see “SECURITY FOR THE 2002 BONDS – Rate and Method” herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Community Facilities District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

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

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 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 Special Tax against property within the Community Facilities District 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 Special Tax 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 a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or

by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE 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 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 the Community Facilities District. 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 the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond control of the Community Facilities District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes 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 Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the Community Facilities District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such Superior Court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding 2002 Bonds.

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

Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 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 Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the

lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2002 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Community Facilities District is owned by 4S Kelwood, a Merchant Builder, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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

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

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

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

Payments by FDIC and Other Federal Agencies

The ability of the School 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 is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would 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 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 the Community Facilities District. The School 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 the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

Seismic Conditions. The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in the Community Facilities District could result in substantial damage to properties in the Community Facilities District 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 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 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 the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and approved the 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 Special Tax.

Billing of Special Taxes

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

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

Inability to Collect Special Taxes

In order to pay debt service on the 2002 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District has covenanted in the Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 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 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 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 XIII C ("Article XIII C") and Article XIII D 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 XIII C 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 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 Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2002 Bonds.

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the Community Facilities District and its obligations can be determined. Certain provisions of Proposition 218 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 Proposition 218 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 Proposition 218 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 Proposition 218.

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 a acts 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 School 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 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 School Facilities without regard to any such evaluation, as an incident to the orderly, planned development of the project site. Thus, formation of the Community Facilities District 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 the School Facilities 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 F. 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 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 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 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 \$24,662,500.00 (which represents the aggregate principal amount of the 2002 Bonds of \$25,000,000, less an underwriter's discount of \$337,500).

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., 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 Bradford
Keith 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

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 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 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 with approximately 32,456 students attending 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.

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 of Learning Support Services, 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⁾

- ⁽²⁾ 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 ten 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 more than four hours per day. The School District's contribution to PERS since 1998 has been \$0.00.

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 \$50,000 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

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

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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

"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 AND UPDATE LETTER

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District
Community Facilities District No. 6
(4S Ranch)

DATE OF VALUE:

May 1, 2002

SUBMITTED TO:

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

DATE OF REPORT:

May 30, 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 92835-4128
(714) 738-1595 • FAX (714) 738-4371

May 30, 2002

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

Re: Community Facilities District No. 6
(4S Ranch)

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 One of 4S Ranch, and a Limited Appraisal of the taxable properties within Neighborhoods Two through Four. The taxable properties include the completed homes, homes under construction, and vacant residential land, excluding the affordable housing site and all commercial land. In Neighborhood One, the taxable properties include 10 separate tracts which will contain a total of 1,084 detached homes, of which there are now 248 completed homes, 176 homes under construction, and vacant lots or partially graded acreage for the remaining 660 units. In Neighborhoods Two through Four, the taxable properties include 23 residential sites (Planning Areas) which are planned for a total of $\pm 2,762$ dwelling units in a broad spectrum of housing from condos at 29/acre to detached homes on 7,000 s.f. lots.

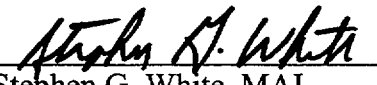
The purpose of this appraisal is to estimate the market value of each tract in Neighborhood One and the minimum market value of the bulk ownership comprising Neighborhoods Two through Four. This appraisal also reflects the proposed public bond financing, as well as the tax rates of ± 1.4 - 1.5% including 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 May 1, 2002:

<u>Neighborhood</u>	<u>Tract Name</u>	<u>Owner/Builder</u>	<u>Market Value</u>
One	Ryland Heritage	Ryland Homes	\$ 40,452,000
One	Summerwood	William Lyon Homes	\$ 10,450,000
One	Tanglewood	William Lyon Homes	\$ 14,100,000
One	Cedar Creek	D.R. Horton	\$ 35,200,000
One	Amherst	Brookfield Homes	\$ 23,634,000
One	Homestead	Fieldstone Communities	\$ 32,239,000
One	Garden Gate	Sea Country Homes	\$ 15,765,000
One	Talavera	Davidson Communities	\$ 42,944,000
One	Providence	William Lyon Homes	\$ 39,847,000
One	Legacy	Christopher Homes	\$ 23,483,000
Two to Four	n/a	4S Kelwood Gen'l Ptnshp	<u>\$110,000,000</u>
			\$388,114,000

MS. SANDRA G. BURGOYNE
MAY 30, 2002
PAGE 2

The following is the balance of this 68-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: 02015

TABLE OF CONTENTS

PAGES

Certification.....	5
Assumptions and Limiting Conditions.....	6-7
Purpose and Use of the Appraisal, Scope of the Appraisal, Date of Value, Property Rights Appraised, Definitions.....	8-9

GENERAL PROPERTY DATA

Location, General Area Description, Description of 4S Ranch.....	10-14
RYLAND HERITAGE (RYLAND HOMES).....	15-21
SUMMERWOOD (WILLIAM LYON HOMES).....	22-24
TANGLEWOOD (WILLIAM LYON HOMES).....	25-27
CEDAR CREEK (D.R. HORTON).....	28-31
AMHERST (BROOKFIELD HOMES).....	32-36
HOMESTEAD (FIELDSTONE COMMUNITIES).....	37-40
GARDEN GATE (SEA COUNTRY HOMES)	41-43
TALAVERA (DAVIDSON COMMUNITIES).....	44-48
PROVIDENCE (WILLIAM LYON HOMES).....	49-52
LEGACY (CHRISTOPHER HOMES).....	53-56
NEIGHBORHOODS TWO THROUGH FOUR.....	57-62

ADDENDA

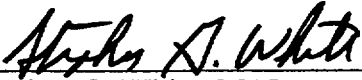
Tabulation of Single-Family Residential Land Sales.....	63-64
Discounted Cash Flow Analysis (Neighborhoods Two to Four).....	65
Qualifications of Appraiser.....	66-68

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 but general 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 land development costs and fees to get various of the subject properties from their as is condition to finished single family residential lots have been obtained from the various builders or their representatives. These costs are integral to the analysis of the value of the as is condition of the land, and have been relied upon in this appraisal as being reasonably accurate.
2. The valuation of the land comprising Neighborhoods Two through Four consists of a Limited Appraisal for the purpose of estimating the minimum market value. Thus, the value is subject to refinement if a Complete Appraisal or more thorough analysis were to be made.

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 (4S Ranch) of the Poway Unified School District, reflecting only the minimum market value for Neighborhoods Two through Four. 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 on Neighborhood One and Limited Appraisal on Neighborhoods Two through Four, 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 their 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 May 1, 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

DEFINITION OF FINISHED LOT, Continuing

development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.

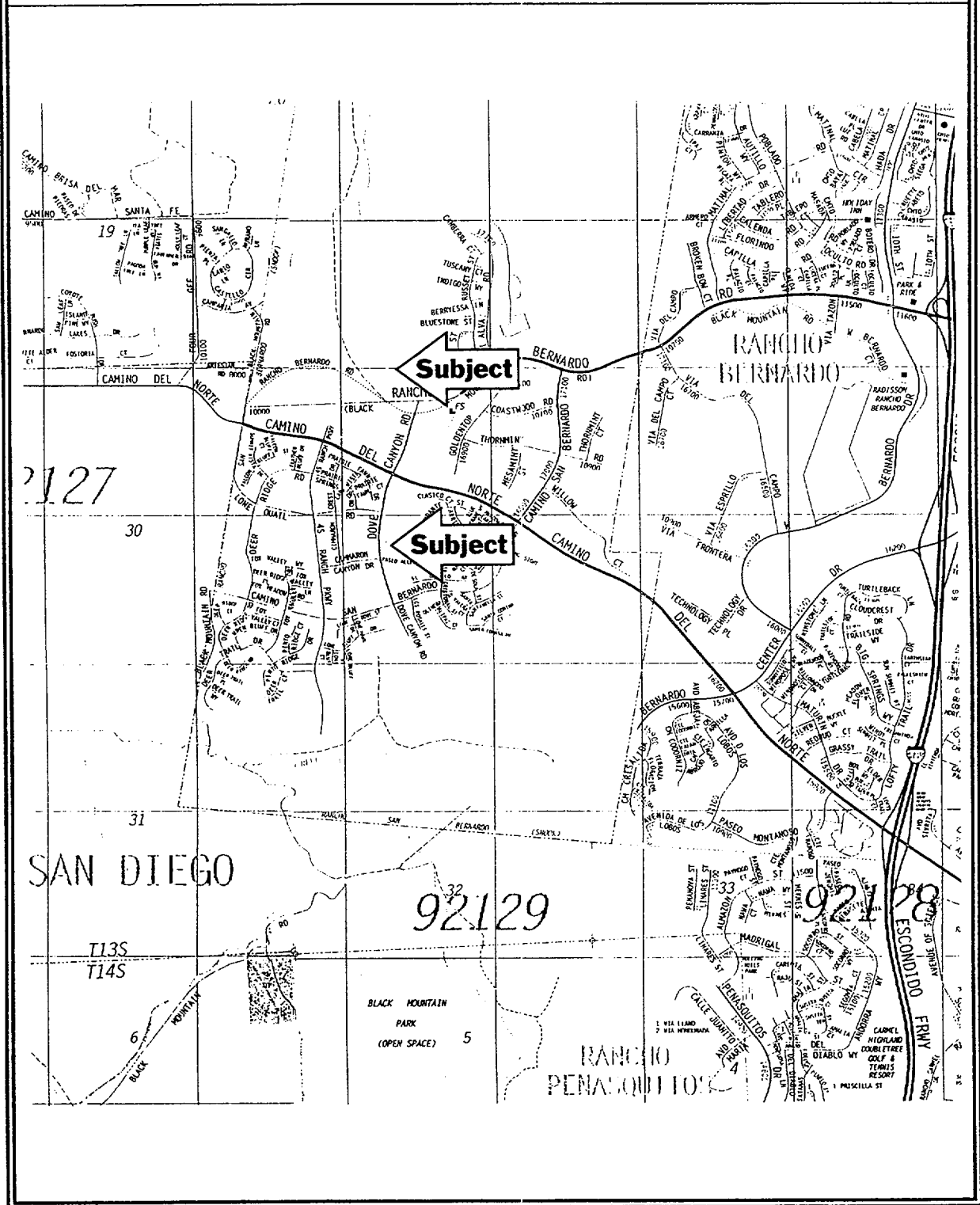
DEFINITION OF BLUE-TOP LOT

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 Neighborhoods One and Two being located south of Camino Del Norte and on both sides of 4S Ranch Parkway, and Neighborhoods Three and Four being located north of Camino Del Norte. This location is in a newly developing area in unincorporated San Diego County area, just less than 2 miles west of the 15 Freeway, but with a San Diego mailing address.

GENERAL AREA DESCRIPTION

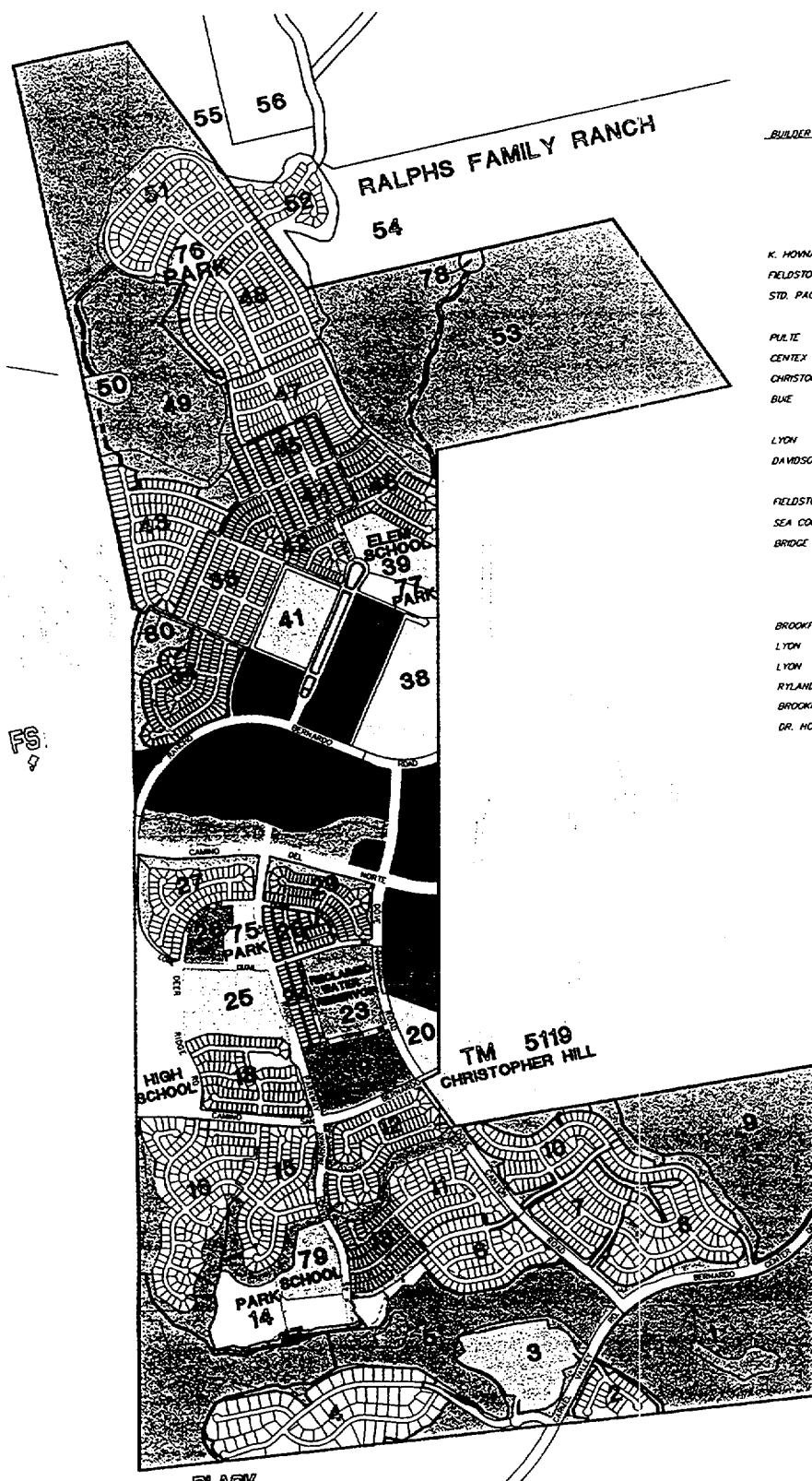
The immediate subject area is located within unincorporated San Diego County area, with the most northerly end of the City of San Diego surrounding the south portion of the subject area nearby to the west, south and east. The subject area is located about 23 miles northerly of downtown San Diego, and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

The area to the north 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 is a large area of undeveloped land, sloping down into a valley area then 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 County area. 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 and 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, but there will be much future commercial development as well as two elementary schools, a middle school and a high school within 4S Ranch. There are also the nearby recreational facilities at Lake Hodges and Lake Poway, various nearby golf courses, and the ocean recreation within 10 miles.

FS



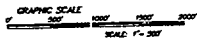
BUILDER	PLANNING AREA NUMBER	DEVELOPMENT SUMMARY		
		TRACT/USE	MIN LOT SIZE/ZONE	NO DU'S
	1	OPEN SPACE		-
	2	SFD	60 x 105	24
	3	MIDDLE SCHOOL		-
	4	SFD	110 x 120	66
	5	OPEN SPACE		-
K. HOWNANIAN	6	SFD	70 x 105	73
FIELDSTONE	7	SFD	60 x 105	65
STD. PACIFIC	8	SFD	65 x 125	105
	9	OPEN SPACE		-
PULTE	10	SFD	60 x 105	75
CENTEX	11	SFD	60 x 105	75
CHRISTOPHER	12	S067-6	50 x 100	108
BLUE	13	SFD	45 x 100	87
	14	PARK		-
LYON	15	S067-5	60 x 100	123
DAVIDSON	16	S067-4	70 x 100	126
	17	PUMP STATION		-
FIELDSTONE	18	S067-3	56 x 98	103
SEA COUNTRY	19	S266	RV9	133
BRIDGE	20	MF LOW	C34	170
	21	WATER RECLAMATION PLANT		-
	22	COMMERCIAL	C36	-
	23	RECLAIMED WATER RESERVOIR		-
BROOKFIELD HOMES	24	S067-8	50 x 103	34
LYON	25	S256	RV-12	202
LYON	26	S258	RV-9	54
RYLAND HOMES	27	S067-1	60 x 100	75
BROOKFIELD HOMES	28	S067-7	50 x 103	46
DR. HORTON	29	S067-2	42 x 100	80
	30	COMMERCIAL	C35	-
	31	COMMERCIAL	C35	-
	32	COMMERCIAL	C34/AM1R	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-16	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		-
	75	PARK		-
	76	PARK		-
	77	PARK		-
	78	WATER TANK		-
	79	SCHOOL		-
	80	OPEN SPACE/DETENTION BASIN		-
	64	RALPHS FAMILY RANCH		11
TOTAL				4215

MAY 17, 2002

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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 theater, cultural and day care facilities, and a community green.

Community amenities will include four schools (two elementary, middle school and 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 coming within the next few months. Residential land sales located in Neighborhood Two are now being negotiated with various builders, and are due to close in the last half of this year.

Streets and Access

The primary access to the developing area of 4S Ranch (Neighborhood One) is by Camino Del Norte, which is a primary road extending northwesterly to this area from the 15 Freeway. Access into Neighborhood One is by 4S Ranch Parkway and Dove Canyon Rd. which extend southerly from Camino Del Norte. 4S Ranch Parkway will ultimately extend north-south through the overall community providing access to all Neighborhoods. Dove Canyon Rd. currently extends north to Rancho Bernardo Rd., and will extend 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. Deer Ridge Rd., Prairie Springs Rd., Lone Quail Rd., Cimarron Crest and Cimarron Canyon Dr. are the other collector streets within Neighborhood One.

Rancho Bernardo Rd. and 4S Ranch Parkway will provide the primary access to Neighborhoods Three and Four.

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, each of the subject tracts in Neighborhood One has recorded tract maps or tentative tract map approval for the existing and planned residential development.

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 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 the floodplain.

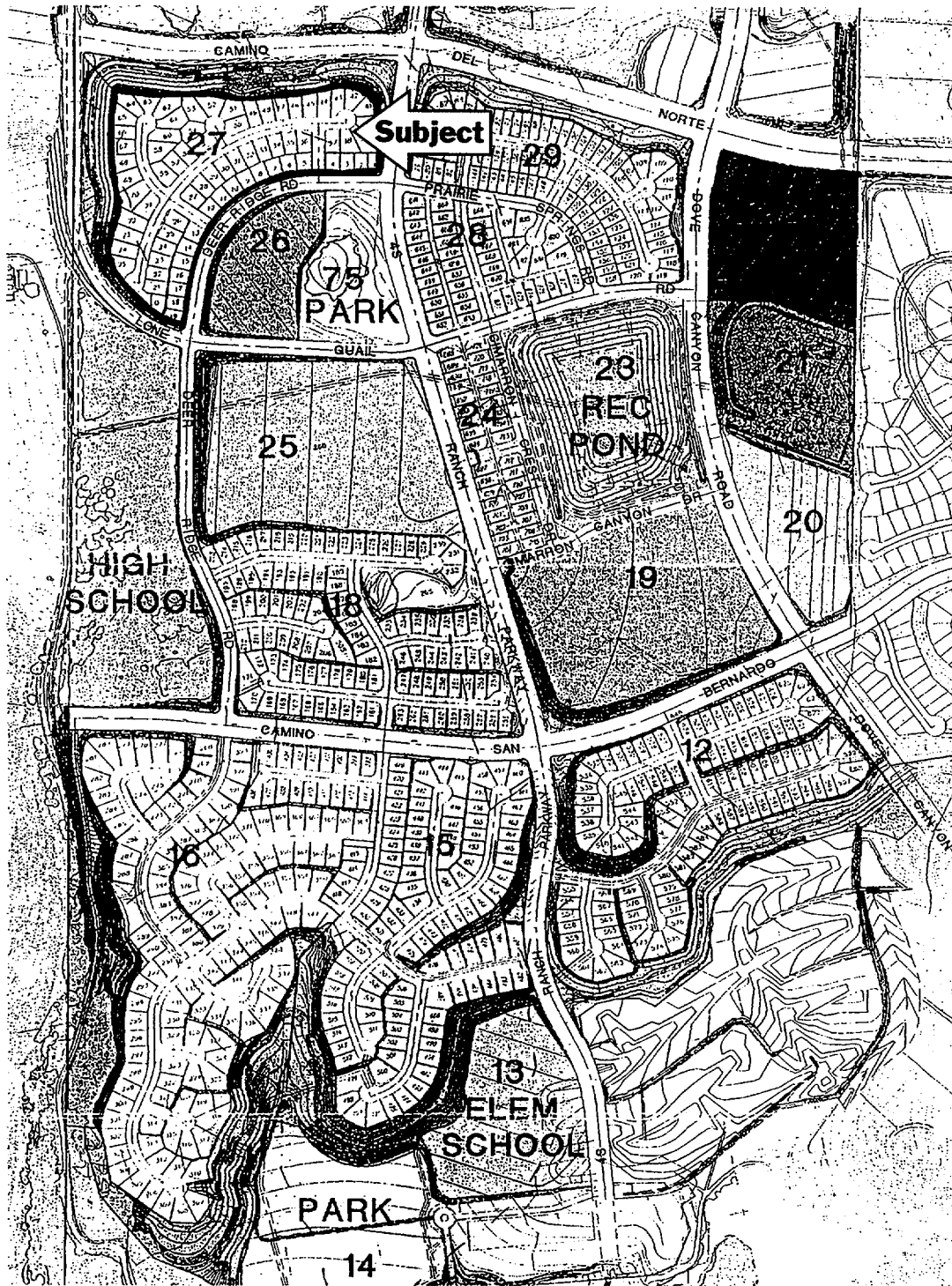
Soil/Geologic Conditions

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 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 RYLAND HERITAGE



RYLAND HERITAGE (RYLAND HOMES)

PROPERTY DATA

Location

This tract is located in the area bounded by Camino Del Norte at the north, 4S Ranch Parkway at the east, Lone Quail Rd. at the west and southwest, and Deer Ridge Rd. at the south and southeast.

Record Owner/Ownership History

Ryland Homes of California, Inc. acquired the land for this tract from 4S Kelwood General Partnership in December 1999, on the basis of \$205,000 per finished lot. Ryland Homes currently owns the completed-unsold homes, the homes under construction and the remaining vacant lots. The various homeowners purchased the 48 completed-sold homes from the latter part of 2001 through April 2002.

Legal Description

This tract comprises Lots 1 through 75 of County of San Diego Tract No. 5067-1, according to Map No. 13968.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-520-01 to 57 and 678-521-01 to 15. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but an effective tax rate of $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 75 lots. The minimum lot size is 60' x 100' or 6,000 s.f., with some of the lots ranging up to $\pm 9,000$ s.f. in size.

Existing and Proposed Development

These 75 lots are being developed with a tract of homes called Ryland Heritage at 4S Ranch. As of May 1 there were 48 completed-sold homes, 6 completed-unsold homes (including the 3 models), 18 homes under construction ($\pm 20-30\%$ completed), and 3 vacant lots.

There are three floor plans which are described as follows:

Residence One: 3,643 s.f., two story, with 4 bedrooms, loft, office, $4\frac{1}{2}$ baths, and a 2-car garage.

PROPERTY DATA, Continuing

Residence Two: 3,798 s.f., two story, with 4 bedrooms, bonus room, den, master retreat, 3 baths, and 3-car tandem garage.

Residence Three: 4,039 s.f., two story, with 5 bedrooms, den, master retreat, 3½ baths, and a 3-car tandem garage.

The home pricing, including lot premiums, is \$618,990 to \$656,990 for Residence One, \$639,990 to \$677,990 for Residence Two, and \$645,990 to \$648,990 for Residence Three. The average premiums on about 30 of the lots were ±\$25,000, and the upgrades typically range up to \$70,000, with an average of ±\$20,000.

Of the 6 completed-unsold homes, 3 are in escrow at prices of \$596,990, \$618,000 and \$644,990 and due to close in mid-May, and 3 are the models. Of the 18 homes under construction, the majority are in escrow and due to close in late August. Construction on the 3 vacant lots is due to start soon, with final sell-out of the tract anticipated in September.

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

For the completed-sold homes, the Sales Comparison Approach is used to estimate the value of the homes on a mass appraisal basis. Actual sale prices of the subject homes are considered, which are considered to be supportable based on the sales activity within the subject tract, as well as the pricing and sales activity of other homes in 4S Ranch. This results in an aggregate value of the homes, reflecting that they are individually owned by the various homeowners.

For the Ryland Homes ownership, the valuation of the completed/unsold homes is based on the value of completed/sold homes less a discount for sales and holding costs, etc., to reflect being part of a bulk ownership. The valuation of the homes under construction is based on consideration of an estimate of costs expended plus the value of the vacant lot. The valuation of the vacant lots is based on the Sales Comparison Approach, and considered as part of the larger tract. This approach considers recent sales of residential land or bulk lots from the general area in comparison to the subject property.

VALUATION, Continuing

Analysis of 48 Completed-Sold Homes

As previously indicated, the current pricing, including lot premiums, ranges from \$618,990 to \$677,990, or an average of $\pm \$648,200$. The price list for 8 homes comprising Phase 6 (under construction and vacant lots) ranges from \$632,990 to \$691,990 or an average of $\pm \$648,100$. It is noted that both of these average indications do not include the typical upgrades, which were indicated to be an average of $\pm \$20,000$.

Assessor data for 33 of the 48 closed sales indicates the overall price range of \$506,000 to \$792,500, or an average of $\pm \$600,700$. While these prices would include the lot premiums and upgrades, it is noted that many of these sales reflect much lower base pricing for earlier phases, which is at least a \$50,000 increase per plan from the first phase to current date. In addition, it is noted that many of these homes have been further upgraded by the homeowners since their purchase, including items such as interior and yard improvements.

In summary, I have concluded on a conservative average for these 48 completed-sold homes at \$650,000.

Analysis of 6 Completed-Unsold Homes

These homes consist of 3 completed homes which are in escrow and the 3 models. The 3 homes are in escrow at prices of \$596,990, \$618,000 and \$644,990, or an average of $\pm \$620,000$. It is noted that this reflects older base pricing. The model pricing would reflect the average of $\pm \$648,000$, though this would not reflect the significant model upgrades. As a starting point, I have concluded on an average value of \$640,000 as if completed-sold homes.

Then, a deduction or discount is appropriate to reflect that these homes are part of an overall or larger bulk ownership. This reflects that there would be cost factors of holding costs, sales costs and profit to the builder to sell off these homes. The holding costs of property taxes and insurance would be less than 1%, sales costs of commissions and closing costs would be 3-4%, and profit would be at least 8% or more. I have concluded on a total discount for these factors of 15%, which results in the following:

$$\$640,000 \times 85\% = \$544,000$$

Analysis of 18 Homes Under Construction

For these 18 homes which are ± 20 -30% completed, I have considered the average home size of $\pm 3,830$ s.f., estimated construction costs of \$50 per s.f., and an average completion factor of $\pm 25\%$. This results in a cost factor of \$12.50 per s.f. which is applied to 3,830 s.f., or an indication of $\pm \$48,000$. This is added to the lot value of

VALUATION, Continuing

\$244,000 as discussed later for the vacant lots, reflecting that all fees have been paid. This results in an average indication at \$292,000 for these 18 homes.

Analysis of 3 Vacant Lots

Residential land sales from within 4S Ranch and from nearby areas have been considered in this analysis. The pertinent data is shown on the detailed Tabulation of Residential Land Sales which is in the Addenda section at the end of this report. The following discussion and analysis references the sales data in that tabulation.

Sale Nos. 1 through 10 comprise the land sales in Neighborhood One of 4S Ranch, and the subject properties in this appraisal. Sale No. 8 was the purchase of lots for this subject property, and indicated the price of \$205,000 per finished lot in December 1999. The earliest base pricing indicated the range of \$528,000 to \$547,000 or an average of \pm \$537,000, and the current pricing indicates an average of \pm \$648,000, which is an increase of \pm 21%. Applying this increase to the purchase price of \$205,000 per finished lot results in an adjusted current indication of \$248,000 per finished lot. Sale No. 5 is a more recent sale in Neighborhood One of smaller lots at 5,000 s.f. minimum, and it indicated the price of \$230,000 per finished lot which is a closer but firm lower limit for the subject.

Sale Nos. 11 through 16 comprise the pending land sales in Neighborhood Two of 4S Ranch. These sales are due to close in June through December 2002. Due to the smaller lot sizes, Sale Nos. 11 and 12 support far lower limits for the subject at \$175,000 and \$206,000 per finished lot. Sale No. 13 consists of similar size lots at 6,300 s.f. minimum, though the projected home prices are much lower than the current home pricing on the subject lots. Thus, the indication at \$222,000 per finished lot would tend to support a close but firm lower limit indication for the subject. Sale No. 14 consists of larger lots at 6,300 s.f. and 7,350 s.f. minimum, but the projected home pricing is far lower than that being achieved on the subject lots, and the indication at \$215,000 per finished lot supports a far lower limit for the subject. Similarly, considering the minimum lots sizes but also the projected home pricing, Sale No. 15 supports a lower limit for the subject at \$230,000 per finished lot and Sale No. 16 supports a close indication at \$240,000 per finished lot.

Sale No. 17 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 similar to 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. 18 is located within the planned community of Santaluz, which will include much rolling open space, golf course, community facilities including pool and tennis courts, etc. This was a sale of larger lots at 7,000 s.f. minimum, planned for homes

VALUATION, Continuing

similar to slightly higher-priced than on the subject lots, particularly when considering lot premiums. Considering the superior location and amenities, the price of \$275,000 per finished lot supports a firm upper limit for the subject.

Sale No. 19 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 home prices as of the date of the land sale were only slightly lower than the subject pricing, likely due to the slightly superior location of this sale. Overall, the indication at ±\$235,000 per finished lot supports a close indication to close lower limit for the subject.

Sale No. 20 is located about 5 miles southwesterly of the subject in Subarea of Torrey Highlands, which is a large planned development area. The location is considered to be slightly superior to the subject, but this is more than offset by the much smaller lots at 4,000 s.f. minimum. Overall, considering also the date of sale in March 2001, the price of \$208,000 per finished lot supports a far lower limit for the subject.

Sale Nos. 21 and 22 are located in Subarea IV of Torrey Highlands, about 4 to 5 miles southerly of the subject. These are sales of ±5,000 s.f. minimum lots, with home pricing that was projected to be slightly lower than the current home pricing on the subject lots. However, the location is considered to be superior to the subject, which tends to result in a higher price paid for the lots, and a higher finished lot ratio. Overall, considering the superior location but smaller lot size, the price indications at ±\$241,000 and \$251,000 per finished lot support close indications for the subject.

In summary, on the basis of price per finished lot, the sales data supports far lower limits at \$175,000 to \$208,000, closer but firm lower limits at \$222,000 to \$230,000, close indication to close lower limit at \$235,000, close indications at ±\$240,000 to \$250,000, and far upper limits at \$275,000 and \$290,000.

On the basis of a finished lot ratio (ratio of finished lot price to average base home price), the data indicates the overall range from 36% to 48%. Considering that the average pricing of the subject homes at ±\$648,000 includes lot premiums and is not just the base pricing, I have used a finished lot ratio of 38-39%, which results in the following:

$$\$648,000 \times .39-.40 = \$246,240 \text{ to } \$252,720/\text{finished lot}$$

I have concluded on a finished lot value for the subject at \$248,000. Then, a deduction of ±\$4,000 per lot is made to reflect the minor remaining items of final street lift, fencing, landscaping, etc., but also reflecting that all fees have been paid. Thus, the conclusion for these 3 vacant lots is \$244,000 per lot for the as is condition.

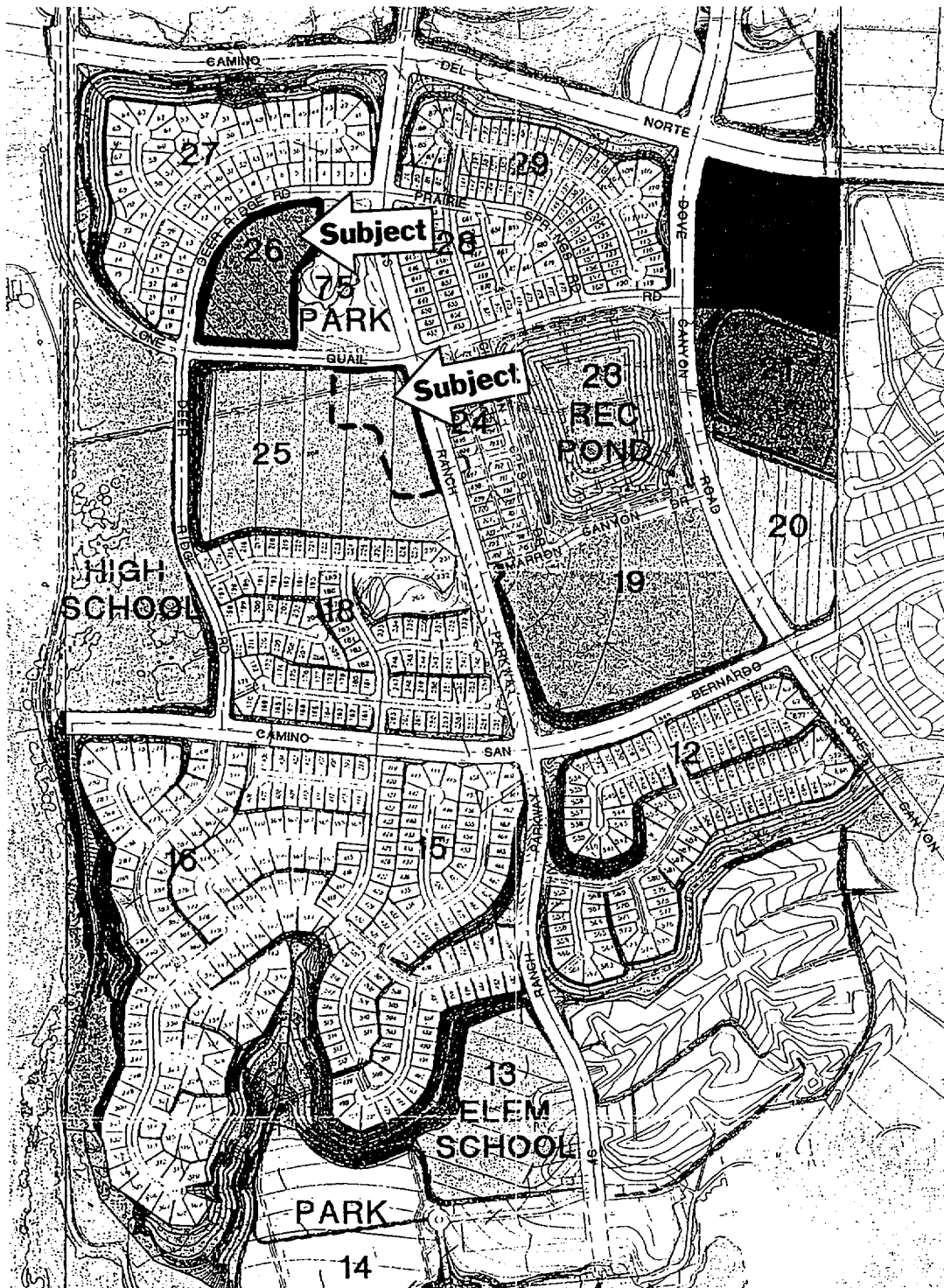
VALUATION, Continuing

Conclusion of Value

Based on the foregoing, the total value indication for Ryland Heritage (Ryland Homes) is calculated as follows:

48 completed/sold homes @ \$650,000 =	\$31,200,000
6 completed/unsold homes @ \$544,000 =	\$ 3,264,000
18 homes under construction @ \$292,000 =	\$ 5,256,000
3 vacant lots @ \$244,000 =	<u>\$ 732,000</u>
	\$40,452,000

MAP OF SUMMERWOOD



SUMMERWOOD (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the northeast corner of Lone Quail Rd. and Deer Ridge Rd. and at the southwest corner of 4S Ranch Parkway and Lone Quail Rd.

Record Owner/Ownership History

4S Lots 2 & 8, LLC (William Lyon Homes) acquired the land for this tract and the adjacent Tanglewood tract (discussed next) from 4S Kelwood General Partnership in December 2001. The allocation of the price to the land for Summerwood indicated \$105,000 per lot for the as is condition (mass graded superpad) or \$134,000 per finished lot.

Legal Description

This tract comprises Lot 2 and a portion of Lot 8 of County of San Diego Tract No. 5066-1, according to Map No. 13905. This tract is currently being further subdivided by two tract maps.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-500-02 and a portion of 678-500-08. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but the effective tax rate will be $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract will contain a total of 95 lots in a condominium-type subdivision. The lot sizes will range from 2,800 s.f. to 3,000 s.f.

Existing and Proposed Development

The land is currently being graded for the 95-lot subdivision. It is planned to be developed with a tract of detached homes called Summerwood. The product is described as alley-loaded with side yards. The homes will range in size from 1,579 s.f. to 1,898 s.f., and the projected pricing will start in the mid to high-\$300,000's. Average lot premiums are projected to be \$7,500.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

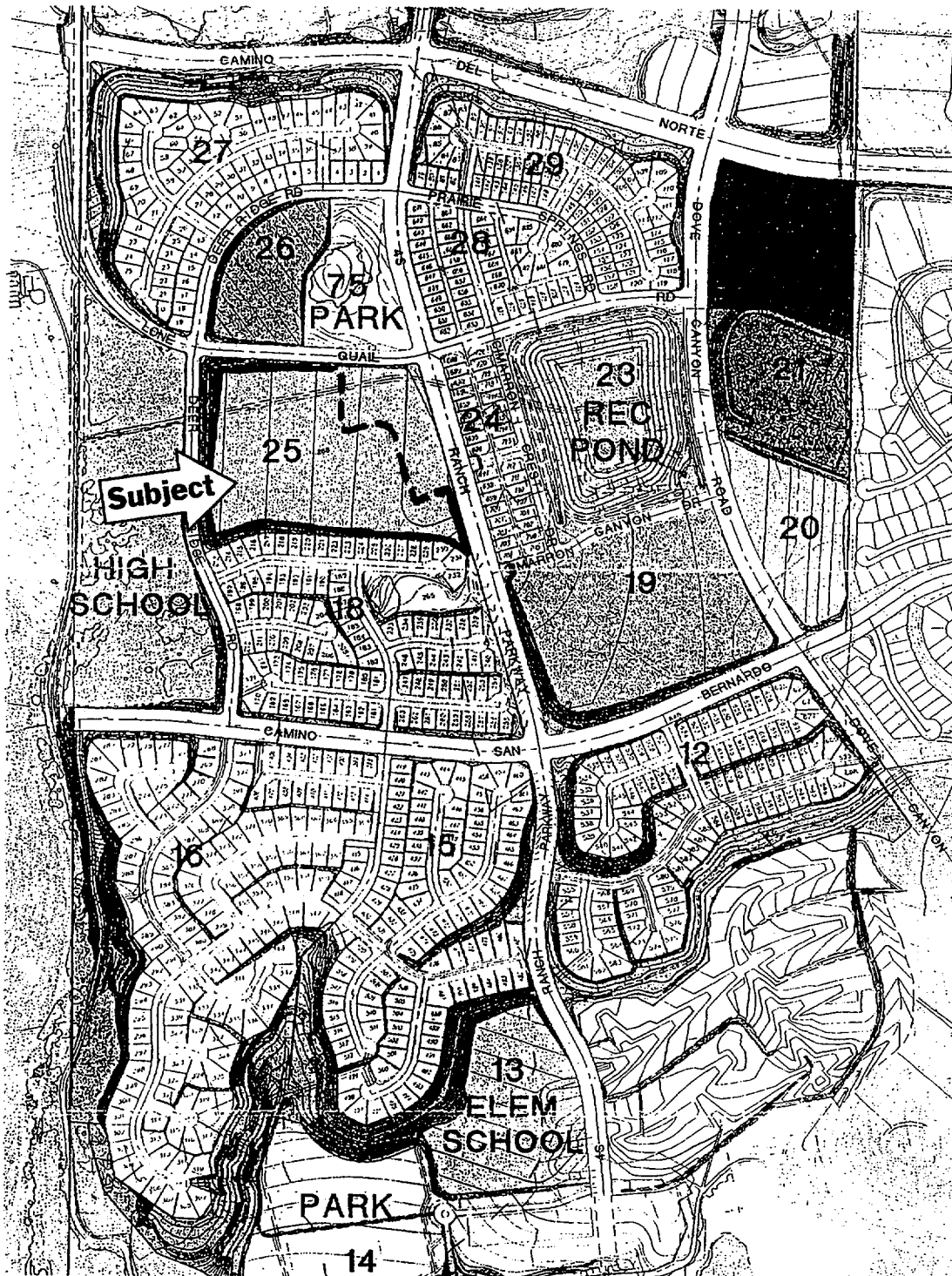
This is similar to the analysis of the vacant lots in Ryland Heritage. As previously indicated, the subject land sold to William Lyon Homes in December 2001 at a price of \$105,000 per lot, which reflected \$134,000 per finished lot. Initially, it is evident that the only other similar land sale, in terms of the relatively small lot size and higher density, is Sale No. 3 at a price of \$150,000 per finished lot. That sale consists of fairly similar minimum and typical lot size, but the planned development is for larger and slightly higher-priced homes. Thus, that sale would tend to support an upper limit at \$150,000 per finished lot.

The sale of the subject property indicates a finished lot ratio of $\pm 36\%$, which is at the low end of the range indicated by all of the land sales data. This could be due to the atypical product planned on the subject site, being a relatively smaller and higher density small-lot product.

Overall, I have concluded that the sale price from December 2001 is supportable at current date. Then, William Lyon Homes indicated that approximately \$5,000 per lot has been spent out of the \$29,000 per lot cost to get the land from the mass graded superpad condition to finished lots. This is added to the indication of \$105,000 per lot, resulting in a value conclusion of \$110,000 per lot, as follows:

$$95 \text{ lots @ } \$110,000/\text{lot} = \$10,450,000$$

MAP OF TANGLEWOOD



TANGLEWOOD (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the southeast corner of Lone Quail Rd. and Deer Ridge Rd., with the south portion extending east to 4S Ranch Parkway.

Record Owner/Ownership History

4S Lots 2 & 8, LLC (William Lyon Homes) acquired the land for this tract and the adjacent Summerwood tract from 4S Kelwood General Partnership in December 2001. The allocation of the price to the land for Tanglewood indicated \pm \$82,578 per lot for the as is condition (mass graded superpad) or \$118,000 per finished lot.

Legal Description

This tract comprises a portion of Lot 8 of County of San Diego Tract No. 5066-1, according to Map No. 13905. This tract is currently being further subdivided by a tract map.

Assessor Data

This tract comprises Assessor Parcel No. 678-500-08. The tax rate area is 64-105, with a current base tax rate of \pm 1.01% but the effective tax rate will be \pm 1.5% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract will contain a total of 161 lots in a condominium-type subdivision. The lot sizes will range from 2,350 s.f. to 2,750 s.f.

Existing and Proposed Development

The land is currently being graded for the 161-lot subdivision. It is planned to be developed with a tract of detached homes called Tanglewood. The product is described as detached condos which will range in size from 1,310 s.f. to 1,675 s.f., and the projected pricing will start in the low \$300,000's. Average lot premiums are projected to be \$4,000.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

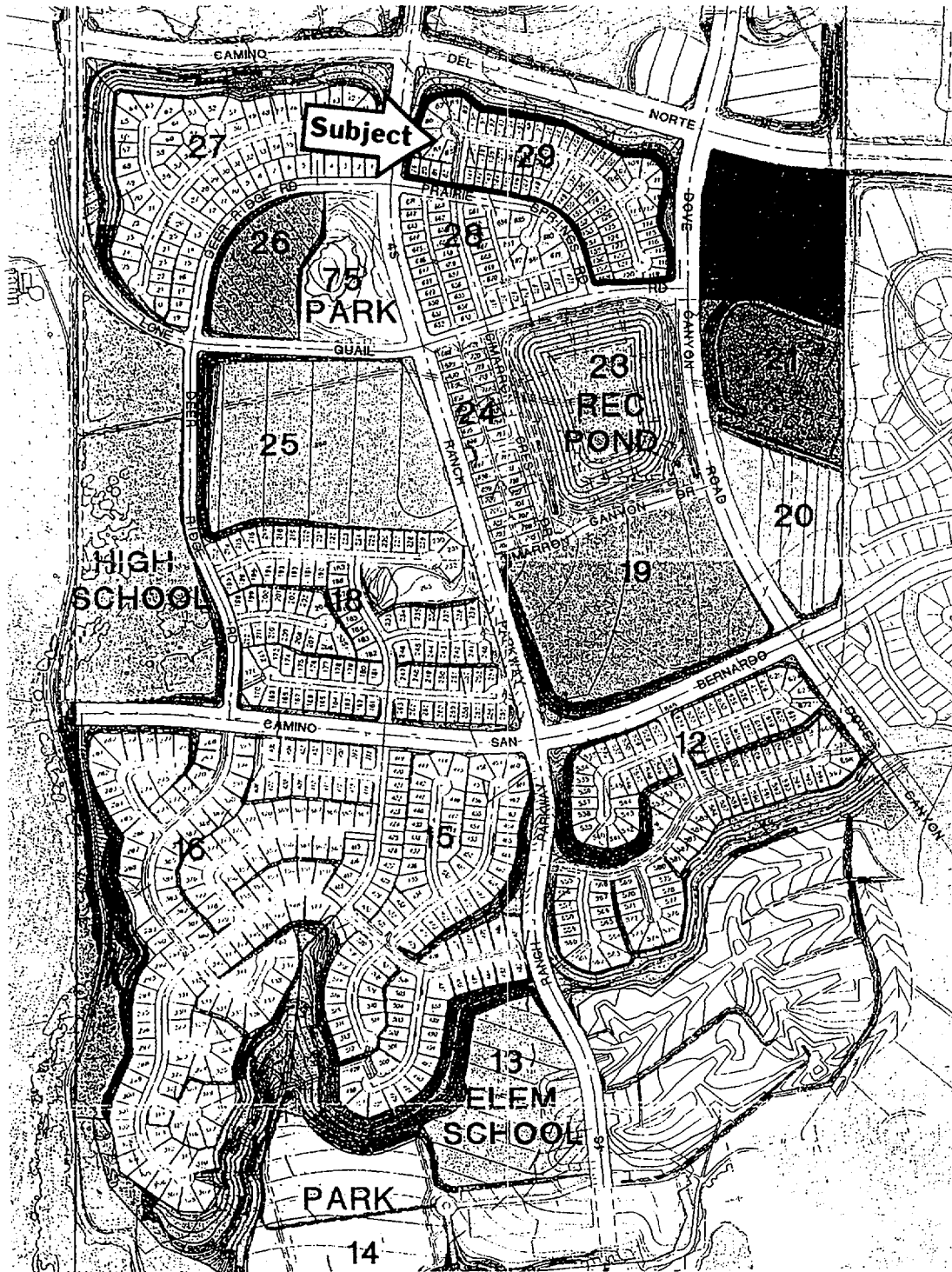
This is similar to the analysis of Summerwood. Thus, the indications of \$134,000 per finished lot for Summerwood and \$150,000 per finished lot from Sale No. 3 support far upper limits for this subject property. The December 2001 sale of this subject property also indicated a finished lot ratio of $\pm 36\%$, again at the low end of the range and considered to be supportable.

Overall, I have concluded that the sale price from December 2001 reflecting \$ $\pm 82,578$ per lot as is or \$118,000 per finished lot is supportable at current date. Then, the amount of \$5,000 per lot for the land development costs expended thus far is added, resulting in a value conclusion of \$87,578 per lot. This results in the following value conclusion:

161 lots @ \$87,578/lot = \$14,100,058

Rounded \$14,100,000

MAP OF CEDAR CREEK



CEDAR CREEK (D.R. HORTON)

PROPERTY DATA

Location

This tract is located in the area bounded by Camino Del Norte at the north, 4S Ranch Parkway at the west, Dove Canyon Rd. at the east, and Prairie Springs Rd. and Lone Quail Rd. along the southerly side.

Record Owner/Ownership History

D.R. Horton San Diego Holding Company, Inc. acquired the land for this tract from 4S Kelwood General Partnership in October 2000, on the basis of ±\$140,000 per lot for the semi-finished condition, or reflecting \$155,000 per finished lot. D.R. Horton currently owns the remaining completed-unsold homes and the homes under construction. The various homeowners purchased the 69 completed-sold homes from May 2001 through April 2002.

Legal Description

This tract comprises Lots 79 through 158 of County of San Diego Tract No. 5067-2, according to Map No. 13988.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-540-02 to 41 and 678-541-01 to 40. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of ±1.01% but an effective tax rate of ±1.5% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 80 lots. The minimum lot size is 42' x 100' or 4,200 s.f., with cul-de-sac lots ranging up to much larger in size.

Existing and Proposed Development

These 80 lots are now mostly developed with a tract of homes called Cedar Creek at 4S Ranch. As of May 1 there were 69 completed-sold homes, 3 completed-unsold homes (the 3 models), and 8 homes under construction. Of the homes under construction, 7 are ±90% completed and 1 is in the foundation stage.

There are three floor plans which are described as follows:

Plan 1: 2,156 s.f., two story, with 3 bedrooms, 2½ baths, or 2 bedrooms with optional loft, and 2-car garage.

PROPERTY DATA, Continuing

Plan 2: 2,344 s.f., two story, with 3 bedrooms, 2½ baths, or 2 bedrooms with optional loft or retreat, and 2-car garage.

Plan 3: 2,712 s.f., two story, with 4 bedrooms, 3 baths, or 3 bedrooms with den and 2½ baths, and 2-car garage.

The pricing for the final phase of homes was \$455,990, \$458,990 and \$488,990 for Plan 2 and \$466,990 and \$471,990 for Plan 3. The models are currently available for \$576,990 (Plan 1), \$556,990 (Plan 2) and \$585,990 (Plan 3). The 8 homes under construction are all in escrow, of which 7 are due to close in late May and 1 is due to close in August.

Highest and Best Use

The highest and best use is concluded to be for completion of the development of the tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for Ryland Heritage.

Analysis of 69 Completed-Sold Homes

As previously indicated, the most recent pricing for the Plan 2 and 3 homes ranged from \$455,990 to \$488,990, or an average of \$468,590. This did not include any Plan 1 homes, but as indicated for the pricing of the model homes, its price would be similar to or slightly greater than Plan 2. In addition to these prices would be typical upgrades.

Assessor data for 38 of the closed sales indicates the overall price range of \$409,000 to \$523,500, or an average of ±\$452,000. These sales took place from May 2001 through April 2002. Thus, while these prices would include the lot premiums and upgrades, it is noted that most of these sales reflect much lower base pricing for earlier phases, which is at least a \$40,000 to \$50,000 increase per plan from the first phase to current date. In addition, it is noted that many of these homes have been further upgraded by the homeowners since their purchase, including items such as interior and yard improvements.

In summary, I have concluded on a conservative average for these 69 completed-sold homes at \$460,000.

VALUATION, Continuing

Analysis of 3 Completed-Unsold Homes

These homes consist of the 3 models. As previously indicated, the asking prices for these homes are \$576,990, \$556,990 and \$585,990, which is an average of ±\$576,300. This is substantially higher than the pricing for the production homes, indicating the significant upgrades.

I have concluded on a conservative average value of \$500,000 as if completed-sold homes. Then, the 15% discount is made, which results in the following:

$$\$500,000 \times 85\% = \$425,000$$

Analysis of 8 Homes Under Construction

For these 7 homes which are ±90% completed, I have considered the average home size of ±2,400 s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 90%. This results in a cost factor of \$45.00 per s.f. which is applied to 2,400 s.f., or an indication of \$108,000. Then, the lot value is estimated at \$178,000, reflecting an average price of \$460,000, a finished lot ratio of 39-40%, and a deduction of ±\$4,000 per lot for the remaining improvements to be completed. This results in an average indication at \$286,000 for these 7 homes.

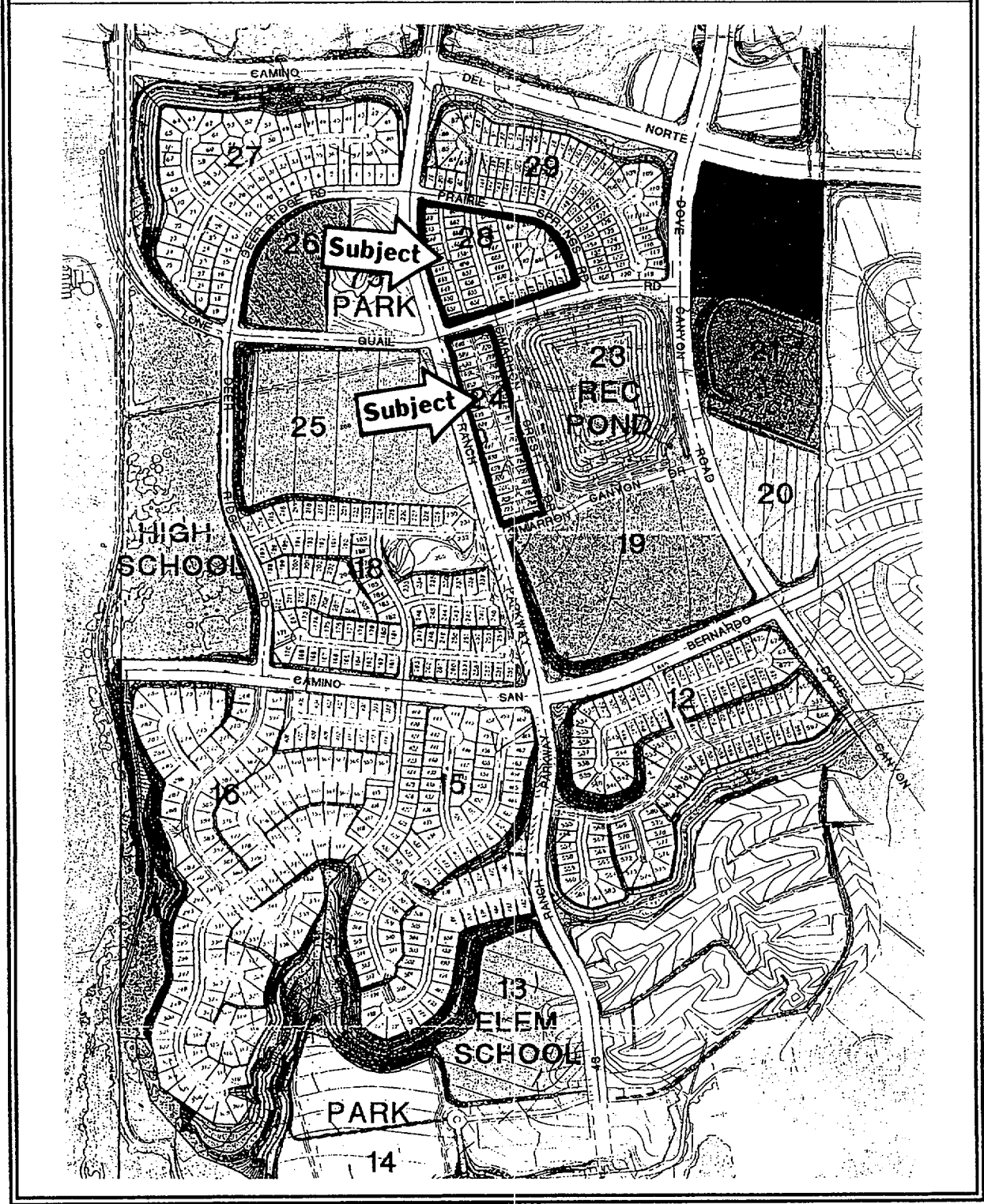
For the 1 home which is in the foundation stage, I have added a lump sum of \$5,000 to the lot value of \$178,000, resulting in an indication at \$183,000.

Conclusion of Value

Based on the foregoing, the total value indication for Cedar Creek (D.R. Horton) is calculated as follows:

69 completed/sold homes @ \$460,000 =	\$31,740,000
3 completed/unsold homes @ \$425,000 =	\$ 1,275,000
7 homes under construction @ \$286,000 =	\$ 2,002,000
1 home under construction @ \$183,000 =	<u>\$ 183,000</u>
	\$35,200,000

MAP OF AMHERST



AMHERST (BROOKFIELD HOMES)

PROPERTY DATA

Location

This tract is located at the northeast and southeast corners of 4S Ranch Parkway and Lone Quail Rd. The north site extends north and east to Prairie Springs Rd. and the south site extends east to Cimarron Crest Dr. and south to Cimarron Canyon Dr.

Record Owner/Ownership History

Brookfield Bernardo LLC (Brookfield Homes) acquired the land for this tract from 4S Kelwood General Partnership, with 44 lots closing in March 2001 and 36 lots closing in March 2002. The finished lots were estimated at \$160,000 for the first takedown and \$170,000 to \$175,000 for the second takedown. Brookfield Bernardo currently owns the completed-unsold homes, the homes under construction and the remaining vacant lots. The various homeowners purchased the 16 completed-sold homes during April 2002.

Legal Description

This tract comprises Lots 641 through 686 of County of San Diego Tract No. 5067-7, according to Map No. 14171, and Lots 690 through 723 of County of San Diego Tract No. 5067-8, according to Map No. 14172.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-580-01 to 46 and 678-590-01 to 34. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but an effective tax rate of $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 80 lots. The minimum and typical lot size is 50' x 105' or 5,250 s.f.

Existing and Proposed Development

These 80 lots are being developed with a tract of homes called Amherst at 4S Ranch. As of May 1 there were 16 completed-sold homes, 10 completed-unsold homes (including the 3 models), 34 homes under construction, and 20 vacant lots. Of the 34 homes under construction, 18 are $\pm 50\%$ completed and 16 are in the foundation stage.

PROPERTY DATA, Continuing

There are three floor plans which are described as follows:

Plan One (Provence): 2,901 s.f., two story, with 5 bedrooms, 3 baths, and 3-car garage, with options of office and master retreat.

Plan Two (Andover): 3,169 s.f., two story, with 5 bedrooms, 3 baths, and 3-car garage, with options of office, retreat, bath 4, and master sitting room.

Plan Three (Carolina): 3,377 s.f., two story, with 6 bedrooms, 3 baths, and 3-car garage, with options of retreat, teen room, and bath 4.

The current minimum pricing, including lot premiums, is \$477,645 for Plan One, \$493,190 for Plan Two, and \$496,750 for Plan Three. The average lot premium for the closed sales is \pm \$3,000, and the upgrades/options ranged up to \$50,000 or an average of \pm \$25,000. Of the 10 completed-unsold homes, 8 are in escrow and two are available at prices of \$521,075 and \$521,375 for Plan Three homes. Of the 34 homes under construction, 21 are in escrow, with 17 due to close in July or August and 3 due to close in September or October.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for Ryland Heritage and Cedar Creek.

Analysis of 16 Completed-Sold Homes

As previously indicated, the current minimum pricing ranges from \$477,645 to \$496,750, or an average of \pm \$489,200. However, two available Plan Three homes in Phase 1 have prices of \$521,075 and \$521,375, and an available Plan 3 home in Phase 2 has a price of \$527,250. In Phase 3 the pricing is \$477,645 to \$483,685 for Plan One homes, \$493,190 to \$503,770 for Plan Two homes, and \$490,940 to \$515,550 for Plan Three homes, or an overall average of \pm \$497,800.

The actual sale prices for the 16 closed sales ranged from \$458,871 to \$526,505, or an average of \pm \$493,200. While these sales just closed in April, it is noted that the base pricing has increased at least \$10,000 to \$15,000 per plan since the initial pricing when these homes were released for sale. Thus, while these actual sale prices would include the lot premiums and upgrades, they would also reflect the lower base pricing.

VALUATION, Continuing

In summary, I have concluded on a conservative average for these 16 completed-sold homes at \$490,000.

Analysis of 10 Completed-Unsold Homes

These homes consist of 7 homes in Phase 1 and the 3 models. Of the 7 homes, 5 are in escrow and due to close soon, and two Plan Three homes are available at prices of \$521,075 and \$521,375. In addition, the three models are highly upgraded. I have concluded on a conservative average value of \$490,000 as if completed-sold homes. Then, the 15% discount is made, which results in the following:

$$\$490,000 \times 85\% = \$416,500$$

Rounded \$416,000

Analysis of 34 Homes Under Construction

For these 18 homes which are $\pm 50\%$ completed, I have considered the average home size of $\pm 3,150$ s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 50%. This results in a cost factor of \$25.00 per s.f. which is applied to 3,150 s.f., or an indication of \$79,000. This is added to the lot value of \$190,000, as discussed later and reflecting that the fees have been paid, resulting in an average indication of \$269,000 for these 18 homes.

For the 16 homes which are in the foundation stage, I have added a lump sum of \$5,000 to the lot value of \$190,000, resulting in an indication at \$195,000.

Analysis of 20 Vacant Lots

The analysis is similar to that of previous subject properties. The purchase price for these lots in March 2001 reflected \$160,000 per finished lot, and in March 2002 reflected \$170,000 to \$175,000 per finished lot. These indications would require an upward time adjustment. Considering minimum lot sizes and home pricing, the sales data would support a firm lower limit at \$175,000 and a firm upper limit at \$206,000 per finished lot. Considering a 39-40% finished lot ratio, the following indication results:

$$\$490,000 \times .39-.40 = \$191,100 \text{ to } \$196,000/\text{finished lot}$$

I have concluded on a finished lot value of \$194,000. Then, a deduction of $\pm \$4,000$ per lot is made to reflect the remaining fees to be paid, and a deduction of $\pm \$4,000$ per lot is made for the minor remaining costs to get the lots to a fully finished condition. This results in an indication at \$186,000 per lot for the vacant lots.

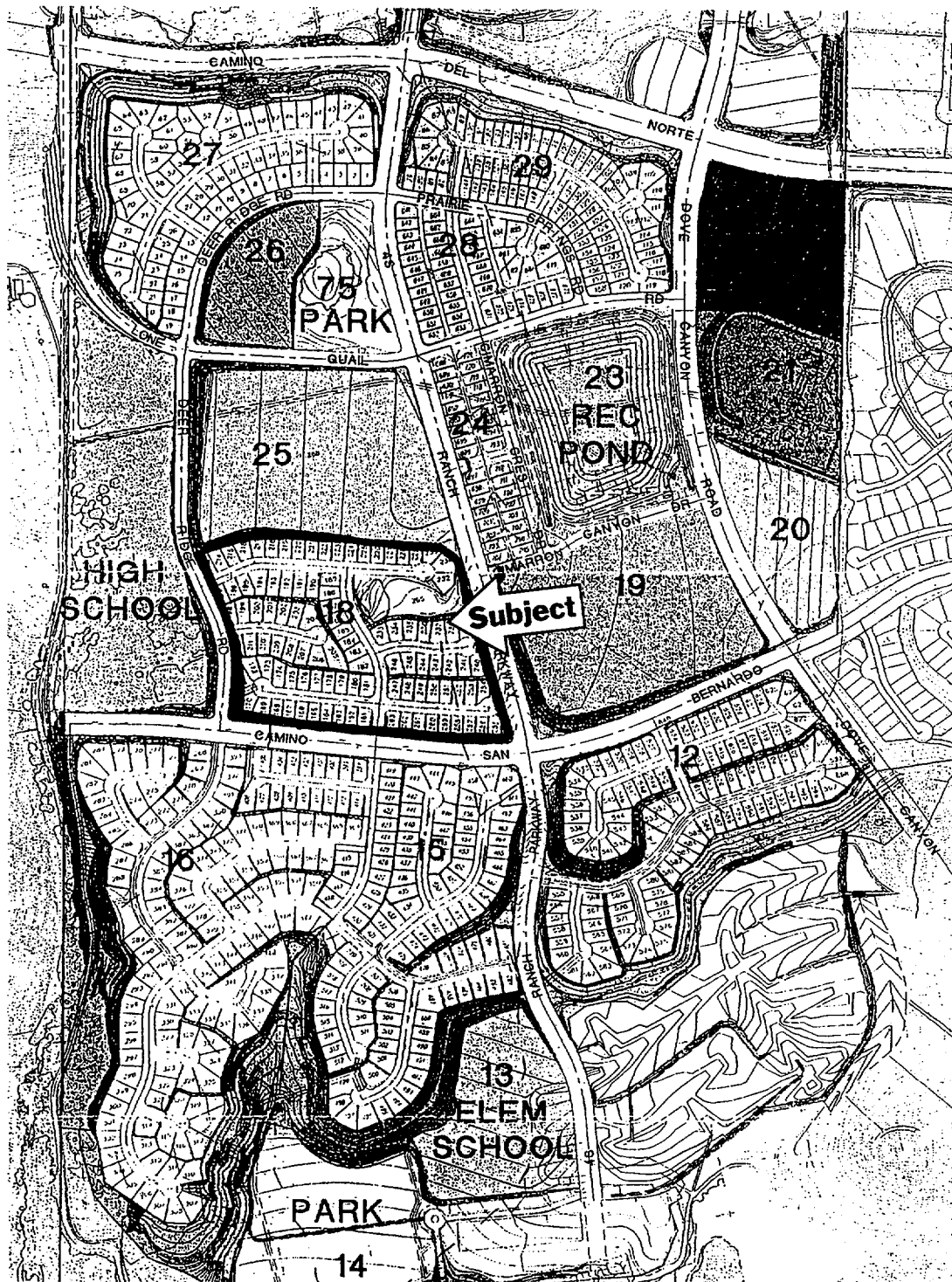
VALUATION, Continuing

Conclusion of Value

Based on the foregoing, the total value indication for Amherst (Brookfield Homes) is calculated as follows:

16 completed/sold homes @ \$460,000 =	\$ 7,360,000
10 completed/unsold homes @ \$425,000 =	\$ 4,250,000
18 homes under construction @ \$288,000 =	\$ 5,184,000
16 homes under construction @ \$195,000 =	\$ 3,120,000
20 vacant lots @ \$186,000 =	<u>\$ 3,720,000</u>
	\$23,634,000

MAP OF HOMESTEAD



HOMESTEAD (FIELDSTONE COMMUNITIES)

PROPERTY DATA

Location

This tract is located at the northwest corner of 4S Ranch Parkway and Camino San Bernardo, extending west to Deer Ridge Rd.

Record Owner/Ownership History

Fieldstone Communities, Inc. acquired the land for this tract from 4S Kelwood General Partnership in December 1999 at a price of \$176,369 per lot for the semi-finished lot condition, which reflected \$200,284 per finished lot. Fieldstone Communities currently owns the completed-unsold homes, the homes under construction and the remaining vacant lots. The various homeowners purchased the 28 completed-sold homes from November 2001 through April 2002.

Legal Description

This tract comprises Lots 161 through 263 of County of San Diego Tract No. 5067-3, according to Map No. 13989.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-530-01 to 38 and 678-531-01 to 65. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but an effective tax rate of $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 103 lots. The minimum lot size is 56' x 90' or 5,040 s.f., with various of the lots ranging up to $\pm 7,000$ s.f., including slopes.

Existing and Proposed Development

These 103 lots are being developed with a tract of homes called Homestead at 4S Ranch. As of May 1 there were 28 completed-sold homes, 3 completed-unsold homes (the 3 models), 22 homes under construction, and 50 vacant lots. Of the 22 homes under construction, 14 are $\pm 50\%$ completed and 8 are in the slab stage.

There are three floor plans which are described as follows:

Plan 2860: 2,860 s.f., two story, with 3 bedrooms, 3 baths, large loft, and 3-car garage, with optional 4th bedroom in lieu of 3rd car garage, and optional deck off master bedroom.

PROPERTY DATA, Continuing

Plan 3296: 3,296 s.f., two story, with 5 bedrooms, 3 baths, large loft, and tandem 3-car garage, with optional 6th bedroom with additional full bath, optional den, and optional deck off master bedroom.

Plan 3300: 3,300 s.f., two story, with 4 bedrooms plus office/den including master retreat, 3 baths, large loft, tandem 3-car garage, with optional 5th bedroom and optional deck off master bedroom.

The current minimum pricing, including lot premiums, is \$502,990 for Plan 2860, \$512,840 for Plan 3296, and \$524,990 for Plan 3300. The lot premiums range from \$6,000 to \$16,000 or an overall average of ±\$8,000, and the typical upgrades/options average ±\$40,000. Of the 22 homes under construction, 19 are in escrow, and of the 50 vacant lots, 10 are already in escrow which are in the next phase of construction.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for previous subject properties.

Analysis of 28 Completed-Sold Homes

As previously indicated, the current minimum pricing ranges from \$502,990 to \$524,990, or an average of ±\$513,600. To this would be added the typical amount of ±\$40,000 for upgrades/options, which would result in an average of ±\$553,600. Assessor data for 26 of the closed sales indicates the overall price range of \$478,000 to \$607,500, or an average of ±\$531,600. These sales closed from November 2001 through April 2002, and thus while the prices include premiums and upgrades, they also reflect the lower base pricing in the earlier phases. In addition, there would be probable homeowner upgrades to many of these homes.

In summary, I have concluded on a conservative average for these 28 completed-sold homes at \$540,000.

Analysis of 3 Completed-Unsold Homes

These are the highly upgraded model homes. I have concluded on a conservative average value of \$550,000 as if completed-sold homes. Then, the 15% discount is made, which results in the following:

$$\$550,000 \times 85\% = \$467,000$$

VALUATION, Continuing

Analysis of 22 Homes Under Construction

For these 14 homes which are $\pm 50\%$ completed, I have considered the average home size of $\pm 3,150$ s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 50%. This results in a cost factor of \$25.00 per s.f. which is applied to 3,150 s.f., or an indication of \$79,000. This is added to the lot value of \$206,000, as discussed later and reflecting that the fees have been paid, resulting in an average indication of \$285,000 for these 14 homes.

For the 8 homes which are in the slab stage, I have added a lump sum of \$10,000 to the lot value of \$206,000, resulting in an indication at \$216,000.

Analysis of 50 Vacant Lots

The analysis is similar to that of previous subject properties. The purchase price for these lots in December 1999 reflected $\pm \$200,000$ per finished lot, which would tend to support a lower limit at current date. Considering minimum lot sizes and home pricing, the sales data would support a lower limit at \$206,000 per finished lot, a close indication at \$215,000 per finished lot, and firm upper limits at \$222,000 and \$230,000 per finished lot. Considering a 39-40% finished lot ratio, the following indication results:

$$\$513,600 \times .39-.40 = \$200,304 \text{ to } \$205,440/\text{finished lot}$$

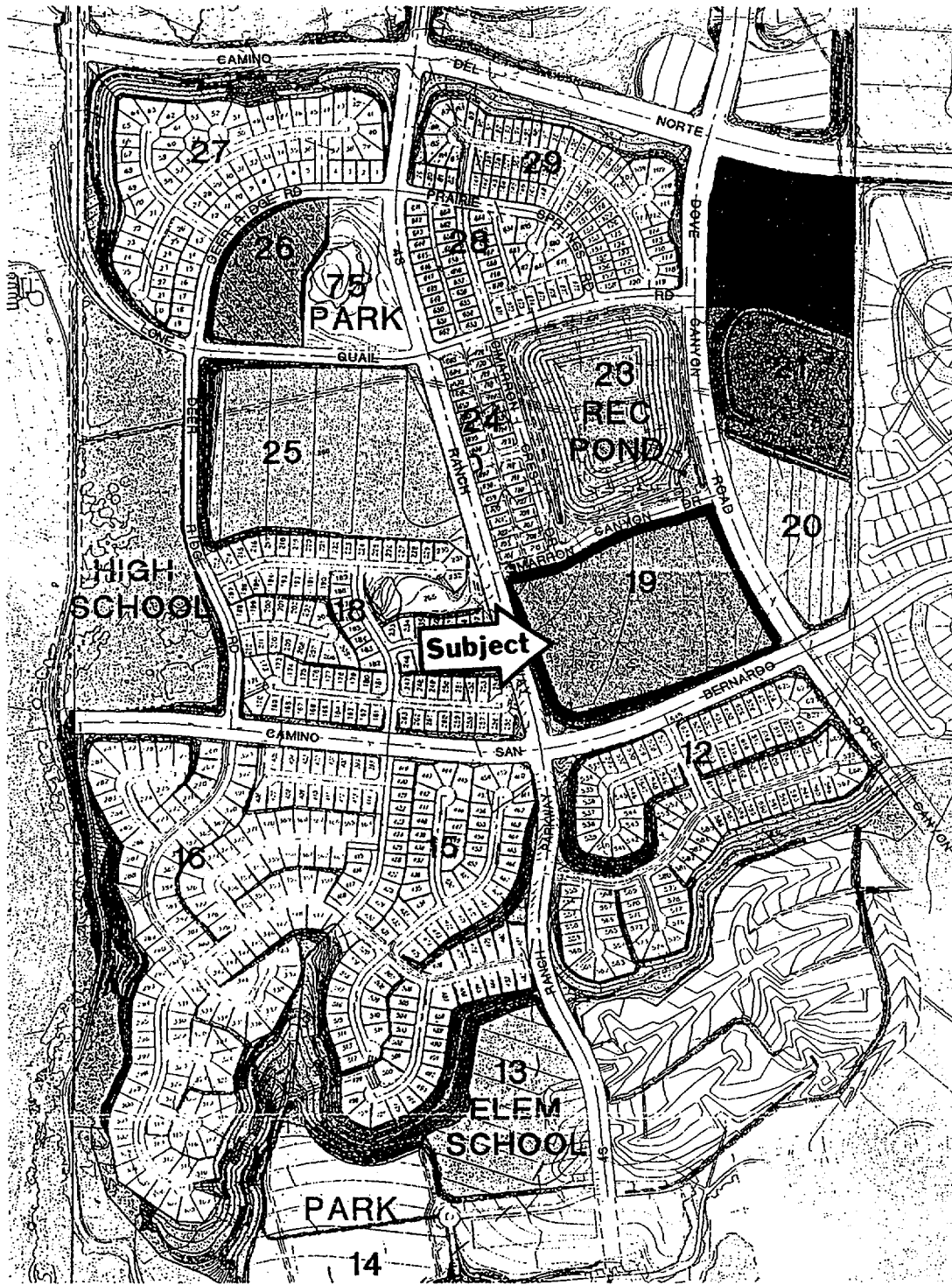
I have concluded on a finished lot value of \$210,000. Then, a deduction of $\pm \$6,000$ per lot is made to reflect the remaining fees yet to be paid, and a deduction of $\pm \$4,000$ per lot is made to reflect the minor remaining costs to get the lots to a fully finished condition. This results in an indication at \$200,000 per lot for the vacant lots.

Conclusion of Value

Based on the foregoing, the total value indication for Homestead (Fieldstone Communities) is calculated as follows:

28 completed/sold homes @ \$540,000 =	\$15,120,000
3 completed/unsold homes @ \$467,000 =	\$ 1,401,000
14 homes under construction @ \$285,000 =	\$ 3,990,000
8 homes under construction @ \$216,000 =	\$ 1,728,000
50 vacant lots @ \$200,000 =	<u>\$10,000,000</u>
	\$32,239,000

MAP OF GARDEN GATE



GARDEN GATE (SEA COUNTRY HOMES)

PROPERTY DATA

Location

This tract is located in the block bounded by 4S Ranch Parkway at the west, Cimarron Canyon Rd. at the north, Dove Canyon Rd. at the east, and Camino San Bernardo at the south.

Record Owner/Ownership History

CRV 4S Ranch, LP (Sea Country Homes) acquired the land for this tract from 4S Kelwood General Partnership in December 2001. The purchase price was \$113,534 per lot for the land in a mass graded superpad condition, and the finished lots are estimated at \$150,000 per lot.

Legal Description

This tract comprises Lot 727 of County of San Diego Tract No. 5067-8, according to Map No. 14172. This tract is being further subdivided for the tract of homes.

Assessor Data

This tract comprises a portion of Assessor Parcel No. 678-242-12. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but the effective tax rate will be $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 14 net/pad acres, and will contain a total of 133 lots in a condominium-type subdivision. The lot sizes will range from 2,700 s.f. to 3,700 s.f., with an average size of $\pm 3,200$ s.f.

Existing and Proposed Development

The land is currently being graded for the 133-lot subdivision, nearing a blue-top condition with trenching for utilities. It is planned to be developed with a tract of detached homes called Garden Gate. The product is described as detached homes in a condominium subdivision. The homes will range in size from $\pm 1,900$ s.f. to 2,300 s.f., and the projected pricing is $\pm \$360,000$ to $\$400,000$.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

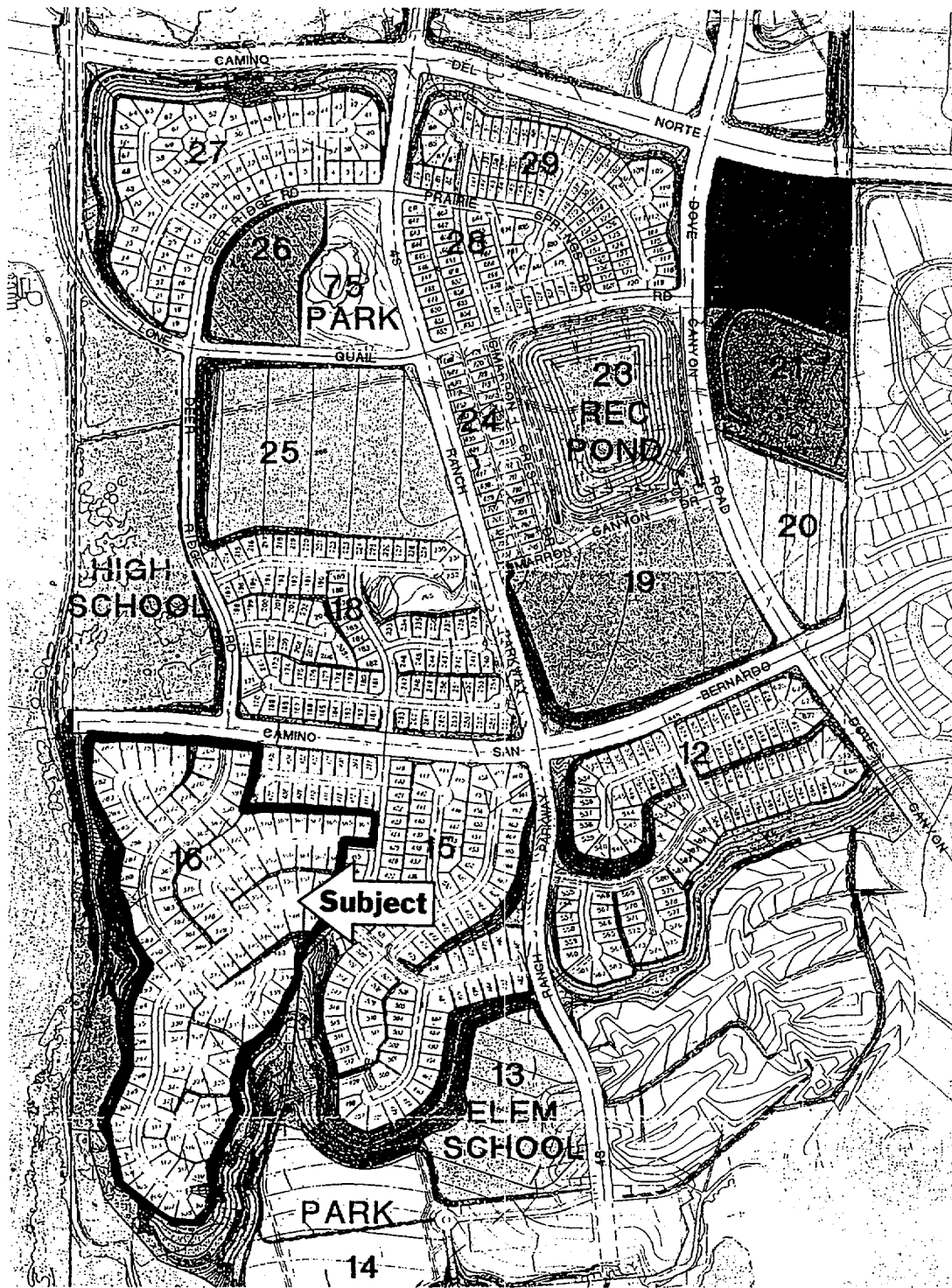
This is similar to the previous analyses of Summerwood and Tanglewood. The December 2001 sales of the land for Summerwood and Tanglewood support firm lower limits for the subject at \$118,000 and \$134,000 per finished lot, due to the higher density, smaller lots and lower-priced homes planned on those lots. Sale No. 11 supports a far upper limit for the subject at \$175,000 per finished lot, due to the larger lot sizes at 4,500 s.f. minimum. This data supports the recent sale of the subject property based on a price of \$150,000 per finished lot. The sale of the subject property indicated a finished lot ratio of $\pm 39\%$, which is toward the lower end of the range and also considered to be supportable.

Overall, I have concluded that the sale price from December 2001 is supportable at current date, reflecting \$113,534 per lot for the mass graded superpad condition. Then, I have added an allocation of $\pm \$5,000$ per lot for the work which has been completed thus far, including the grading which is now nearing a blue-top condition, with trenching for utilities, etc. This results in a value for the as is condition of $\pm \$118,534$ per lot, as follows:

133 lots @ \$118,534/lot = \$15,765,502

Rounded \$15,765,000

MAP OF TALAVERA



TALavera (DAVIDSON COMMUNITIES)

PROPERTY DATA

Location

This tract is located on the south side of Camino San Bernardo, opposite Deer Ridge Rd.

Record Owner/Ownership History

Davidson-Rancho Bernardo, L.P. acquired 67 lots from 4S Kelwood General Partnership in January 2001 and 34 lots in December 2001. The remaining 25 lots are still owned by 4S Kelwood General Partnership, and the sale to Davidson is scheduled to close in December 2002. The purchase price was \$213,000 per lot for the semi-finished condition, reflecting a total of \$231,000 per finished lot. Thus, Davidson-Rancho Bernardo owns the completed-unsold homes, the homes under construction and 22 of the vacant lots, and 4S Kelwood General Partnership owns 25 of the vacant lots. The various homeowners purchased the 19 completed-sold homes from February 2002 through April 2002.

Legal Description

This tract comprises Lots 268 through 393 of County of San Diego Tract No. 5067-4, according to Map No. 14105.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-550-01 to 30, 678-551-01 to 27, 678-552-01 to 34 and 678-553-01 to 35. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but an effective tax rate of $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 126 lots. The minimum lot size is 70' x 100' or 7,000 s.f., with various of the lots ranging up to $\pm 10,000$ s.f., including some slope area.

Existing and Proposed Development

These 126 lots are being developed with a tract of homes called Talavera at 4S Ranch. As of May 1 there were 19 completed-sold homes, 9 completed-unsold homes (including the 4 models), 51 homes under construction, and 47 vacant lots. Of the 51 homes under construction, 23 are $\pm 60\%$ completed, 12 are $\pm 20\%$ completed, and 16 are in the foundation or slab stage.

PROPERTY DATA, Continuing

There are four floor plans which are described as follows:

Residence One: 3,451 s.f., two story, with 4 bedrooms, 3½ baths, den and bonus room (optional 5th bedroom), and tandem 3-car garage.

Residence Two: 3,780 s.f., two story, with 4 bedrooms, 4½ baths, with den and bonus room (optional 5th and/or 6th bedrooms), and 3-car garage.

Residence Three: 3,870 s.f., two story, with 4 bedrooms, 4½ baths, hobby room and bonus room (optional 5th and/or 6th bedrooms), and 3-car garage.

Residence Four: 4,053 s.f., two story, with 5 bedrooms, 4½ baths, tech.-study room (optional 6th bedroom), and 3-car garage.

The current base pricing is \$581,900 for Plan 1, \$625,900 for Plan 2, \$615,900 for Plan 3 and \$658,900 for Plan 4. The lot premiums range up to \$40,000 or an average of ±\$20,000, and the typical upgrades/options average ±\$50,000. There are currently 41 escrows, including the 5 completed-unsold homes (excluding the 4 models) and many of the homes under construction and some of the vacant lots for which construction has not yet started.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for previous subject properties.

Analysis of 19 Completed-Sold Homes

As previously indicated, the current base pricing ranges from \$581,900 to \$658,900, or an average of \$620,650. To this would be added the typical lot premiums and upgrades/options. The actual pricing for the 19 closed sales ranged from \$573,900 to \$732,823 or an average of ±\$638,900. Actual sale prices for 27 of the current escrows which are due to close from May through August range from \$581,900 to \$728,474, or an average of ±\$649,800. In addition, it is noted that at least some homeowner upgrades have likely taken place since their purchase.

In summary, I have concluded on a conservative average for these 19 completed-sold homes at \$640,000.

VALUATION, Continuing

Analysis of 9 Completed-Unsold Homes

I have concluded on the conservative average value for these homes, including the 4 upgraded models, of \$640,000, less the 15% discount, which results in the following:

$$\$640,000 \times 85\% = \$544,000$$

Analysis of 51 Homes Under Construction

For these 23 homes which are $\pm 60\%$ completed, I have considered the average home size of $\pm 3,790$ s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 60%. This results in a cost factor of \$30.00 per s.f. which is applied to 3,790 s.f., or an indication of \$114,000. This is added to the lot value of \$234,000, as discussed later and reflecting that the fees have been paid, resulting in an average indication of \$348,000 for these 23 homes.

For the 12 homes which are $\pm 20\%$ completed, the cost allocation is \$10.00 per s.f. on 3,790 s.f. or \$38,000 which is added to the lot value of \$234,000, resulting in an average indication of \$272,000 for these 12 homes.

For the 16 homes which are in the foundation or slab stage, I have added a lump sum of \$10,000 to the lot value of \$234,000, resulting in an indication at \$244,000.

Analysis of 47 Vacant Lots

The analysis is similar to that of previous subject properties. The purchase price for these lots commencing in January 2001 was based on \$231,000 per finished lot, which would tend to support a lower limit at current date. Considering minimum lot sizes and home pricing, the sales data would support a lower limit at \$240,000 per finished lot, and firm upper limits at \$275,000 to \$290,000 per finished lot. Considering a 39-40% finished lot ratio, the following indication results:

$$\$620,650 \times .39-.40 = \$242,054 \text{ to } \$248,260/\text{finished lot}$$

I have concluded on a finished lot value of \$245,000. Then, a deduction of $\pm \$6,000$ per lot is made to reflect the remaining fees yet to be paid, and a deduction of $\pm \$11,000$ per lot is made to reflect the minor remaining costs to get the lots to a fully finished condition. This results in an indication at \$228,000 per lot for the vacant lots.

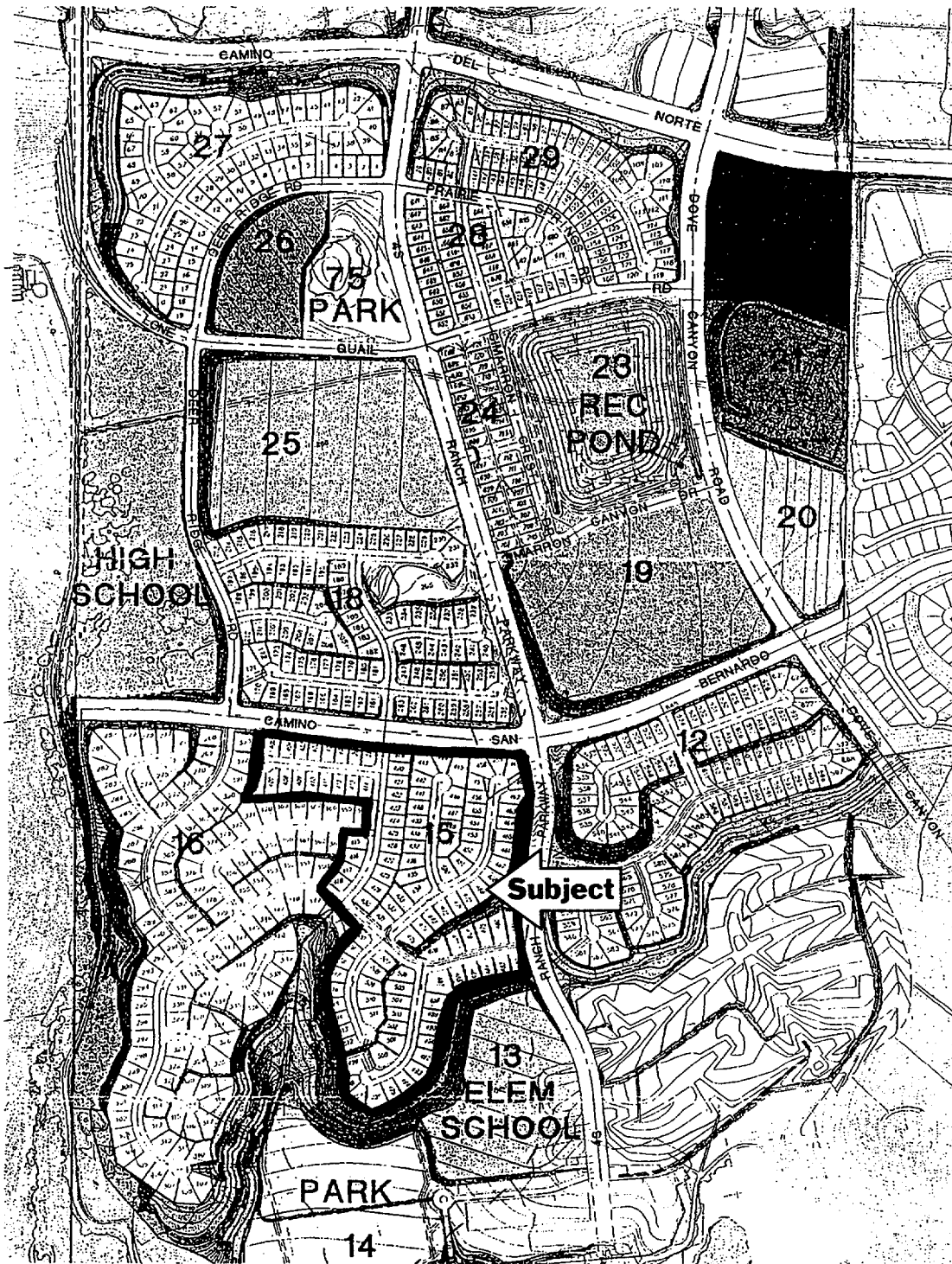
Conclusion of Value

Based on the foregoing, the total value indication for Talavera (Davidson Communities) is calculated as follows:

VALUATION, Continuing

19 completed/sold homes @ \$640,000 =	\$12,160,000
9 completed/unsold homes @ \$544,000 =	\$ 4,896,000
23 homes under construction @ \$348,000 =	\$ 8,004,000
12 homes under construction @ \$272,000 =	\$ 3,264,000
16 homes under construction @ \$244,000 =	\$ 3,904,000
47 vacant lots @ \$228,000 =	<u>\$10,716,000</u>
	\$42,944,000

MAP OF PROVIDENCE



PROVIDENCE (WILLIAM LYON HOMES)

PROPERTY DATA

Location

This tract is located at the southwest corner of 4S Ranch Parkway and Camino San Bernardo.

Record Owner/Ownership History

4S Lot 12, LLC (William Lyon Homes) acquired the first takedown of 66 lots from 4S Kelwood General Partnership in December 2000 and the second takedown of 57 lots in August 2001. The purchase price was \$203,000 per lot for the semi-finished condition, reflecting a total of \$218,000 per finished lot. Thus, 4S Lot 12, LLC owns the completed-unsold homes, the homes under construction and the remaining vacant lots. The various homeowners purchased the 21 completed-sold homes from December 2001 through April 2002.

Legal Description

This tract comprises Lots 398 through 520 of County of San Diego Tract No. 5067-5, according to Map No. 14106.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-560-01 to 33, 678-561-01 to 45 and 678-562-01 to 45. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of $\pm 1.01\%$ but an effective tax rate of $\pm 1.5\%$ including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 123 lots. The minimum lot size is 60' x 100' or 6,000 s.f., with various of the lots ranging up to $\pm 11,000$ s.f., including some slope area.

Existing and Proposed Development

These 123 lots are being developed with a tract of homes called Providence at 4S Ranch. As of May 1 there were 21 completed-sold homes, 13 completed-unsold homes (including the 4 models), 29 homes under construction, and 60 vacant lots. Of the 29 homes under construction, 16 are $\pm 50\%$ completed, and 13 are in the slab stage.

There are four floor plans which are described as follows:

PROPERTY DATA, Continuing

Plan 1 (Ashby): 3,412 s.f., two story, with 4 bedrooms, bonus room, 2½ baths, and 3-car garage.

Plan 2 (Bristol): 3,472 s.f., two story, with 4 bedrooms, den, bonus room, 3 baths, and 3-car garage.

Plan 3 (Durham): 3,652 s.f., two story, with 3 bedrooms, den, retreat, 2½ baths, and 3-car garage.

Plan 4 (Windsor): 3,839 s.f., two story, with 4 bedrooms, loft, retreat, 3½ baths, and 3-car garage.

The current base pricing is \$555,900 for Plan 1, \$584,900 for Plan 2, \$601,900 for Plan 3 and \$605,900 for Plan 4. The lot premiums range up to \$38,000 or an average of ±\$14,000, and the typical upgrades/options range up to \$150,000 or an average of ±\$50,000. All but 1 of the completed-unsold homes (excluding the models) are in escrow, and most of the homes under construction are also in escrow.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for previous subject properties.

Analysis of 21 Completed-Sold Homes

As previously indicated, the current base pricing ranges from \$555,900 to \$605,900, or an average of \$587,150. To this would be added the typical lot premiums and upgrades/options. The actual pricing for the 21 closed sales ranged from \$535,900 to \$661,545 or an average of ±\$578,900. While these prices would include lot premiums and upgrades/options, they also reflect the lower base pricing from earlier phases, going back to Fall of 2001. In addition, it is noted that at least some homeowner upgrades have likely taken place since their purchase.

In summary, I have concluded on a conservative average for these 21 completed-sold homes at \$590,000.

Analysis of 13 Completed-Unsold Homes

I have concluded on the conservative average value for these homes, including the 4 upgraded models, of \$590,000, less the 15% discount, which results in the following:

VALUATION, Continuing

$$\$590,000 \times 85\% = \$501,000$$

Analysis of 29 Homes Under Construction

For these 16 homes which are $\pm 50\%$ completed, I have considered the average home size of $\pm 3,590$ s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 50%. This results in a cost factor of \$25.00 per s.f. which is applied to 3,590 s.f., or an indication of \$90,000. This is added to the lot value of \$221,000, as discussed later and reflecting that the fees have been paid, resulting in an average indication of \$311,000 for these 16 homes.

For the 13 homes which are in the slab stage, I have added a lump sum of \$15,000 to the lot value of \$221,000, resulting in an indication at \$236,000.

Analysis of 60 Vacant Lots

The analysis is similar to that of previous subject properties. The purchase price for these lots commencing in December 2000 was based on \$218,000 per finished lot, which would tend to support a lower limit at current date. Considering minimum lot sizes and home pricing, the sales data would support a far lower limit at \$206,000 per finished lot, closer lower limits at \$215,000 and \$222,000 per finished lot, a close indication at \$230,000 per finished lot and a firm upper limit at \$240,000 per finished lot. Considering a 39-40% finished lot ratio, the following indication results:

$$\$587,150 \times .39-.40 = \$228,989 \text{ to } \$234,860/\text{finished lot}$$

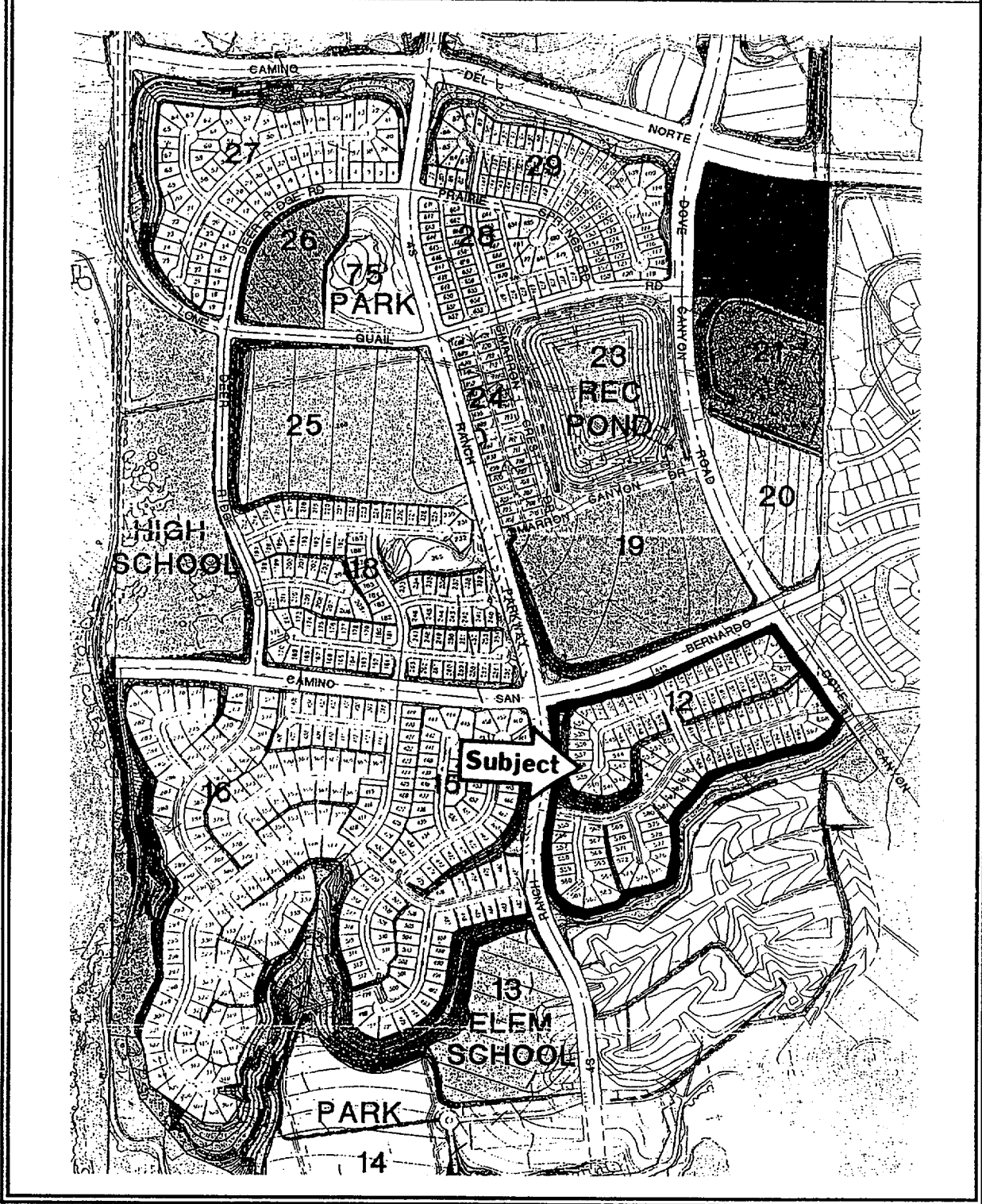
I have concluded on a finished lot value of \$230,000. Then, a deduction of $\pm \$6,000$ per lot is made to reflect the remaining fees yet to be paid, and a deduction of $\pm \$9,000$ per lot is made to reflect the minor remaining costs to get the lots to a fully finished condition. This results in an indication at \$215,000 per lot for the vacant lots.

Conclusion of Value

Based on the foregoing, the total value indication for Providence (William Lyon Homes) is calculated as follows:

21 completed/sold homes @ \$590,000 =	\$12,390,000
13 completed/unsold homes @ \$501,000 =	\$ 6,513,000
16 homes under construction @ \$311,000 =	\$ 4,976,000
13 homes under construction @ \$236,000 =	\$ 3,068,000
60 vacant lots @ \$215,000 =	<u>\$12,900,000</u>
	\$39,847,000

MAP OF LEGACY



LEGACY (PLC/CHRISTOPHER HOMES)

PROPERTY DATA

Location

This tract is located along the south side of Camino San Bernardo, from 4S Ranch Parkway to Dove Canyon Rd.

Record Owner/Ownership History

PLC 4S Ranch LLC (PLC Land/Christopher Homes) acquired these 108 lots from 4S Kelwood General Partnership in July 2001. The purchase price was ±\$215,000 per lot for the semi-finished condition, reflecting a total of \$230,000 per finished lot. At this point, PLC 4S Ranch LLC owns all of the property in this tract, including the completed-unsold homes, the homes under construction and the remaining vacant lots.

Legal Description

This tract comprises Lots 527 through 634 of County of San Diego Tract No. 5067-6, according to Map No. 14170.

Assessor Data

This tract comprises Assessor Parcel Nos. 678-570-01 to 28, 678-561-01 to 31 and 678-562-01 to 49. The assessed values are not current to reflect the existing construction. The tax rate area is 64-105, with a current base tax rate of ±1.01% but an effective tax rate of ±1.5% including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 108 lots. The minimum lot size is 50' x 100' or 5,000 s.f., with various of the lots ranging up to ±10,000 s.f., including some slope area.

Existing and Proposed Development

These 108 lots are being developed with a tract of homes called Legacy at 4S Ranch. As of May 1 there were 3 completed-unsold homes (the 3 models), 14 homes under construction (±50% completed), and 91 vacant lots.

There are four floor plans (only three are modeled) which are described as follows:

Residence One: 2,829 s.f., two story, with 3 bedrooms and loft (optional 4th bedroom), 2½ baths, and 2-car garage plus storage area or optional den/office at storage area.

PROPERTY DATA, Continuing

Residence Two: 2,886 s.f., two story, with 4 bedrooms plus loft, 3 baths, and 3-car garage, with optional super family room at bedroom 4 and optional bedroom 5 and bath 4 at loft.

Residence Three: 2,987 s.f., two story, with 5 bedrooms plus loft, 4 baths and 3-car garage, with optional den at bedroom 5.

Residence Four: 3,288 s.f., two story, with 4 bedrooms and bonus room, 3½ baths and 3-car tandem garage, with optional expanded bedroom 4 at tandem garage.

The current base pricing is \$485,000 for Plan 1, \$500,000 for Plan 2, \$510,000 for Plan 3 and \$535,000 for Plan 4. Lot premiums and upgrades/options can add up to ±\$100,000 over the base pricing. All of the homes under construction are in escrow, and sales were also taking place for the next phase of homes which had not yet started construction as of May 1.

Highest and Best Use

The highest and best use is concluded to be for continued development of the planned tract of homes.

VALUATION

Method of Analysis

The analysis is similar to that for previous subject properties.

Analysis of 3 Completed-Unsold Homes

As previously indicated, the current base pricing ranges from \$485,000 to \$535,000, or an average of \$507,500. To this would be added the typical lot premiums and upgrades/options, which would be significant on these 3 model homes. The actual pricing for the 14 homes under construction, including lot premiums and some options, ranges from \$502,700 to \$615,700, or an average of ±\$543,500.

I have concluded on a conservative average for these 3 model homes at \$540,000, less the 15% discount, which results in the following:

$$\$540,000 \times 85\% = \$459,000$$

Analysis of 14 Homes Under Construction

For these 14 homes which are ±50% completed, I have considered the average home size of ±3,000 s.f., estimated construction costs of \$50 per s.f., and an average completion factor of 50%. This results in a cost factor of \$25.00 per s.f. which is applied to 3,000 s.f., or an indication of \$75,000. This is added to the lot value of

VALUATION, Continuing

\$204,000, as discussed later and reflecting that the fees have been paid, resulting in an average indication of \$279,000 for these 14 homes.

Analysis of 91 Vacant Lots

The analysis is similar to that of previous subject properties. The purchase price for these lots in July 2001 indicated a price of \pm \$215,000 for the lots in a semi-finished condition or \$230,000 per finished lot. At that time, the indicated finished lot ratio was 46%, toward the upper end of the range, based on an average base home price of \pm \$500,000. As previously noted, this average base is only minimally higher at current date. In addition, current sales data indicates a price of \$206,000 per finished lot for 5,000 s.f. lots in Neighborhood Two.

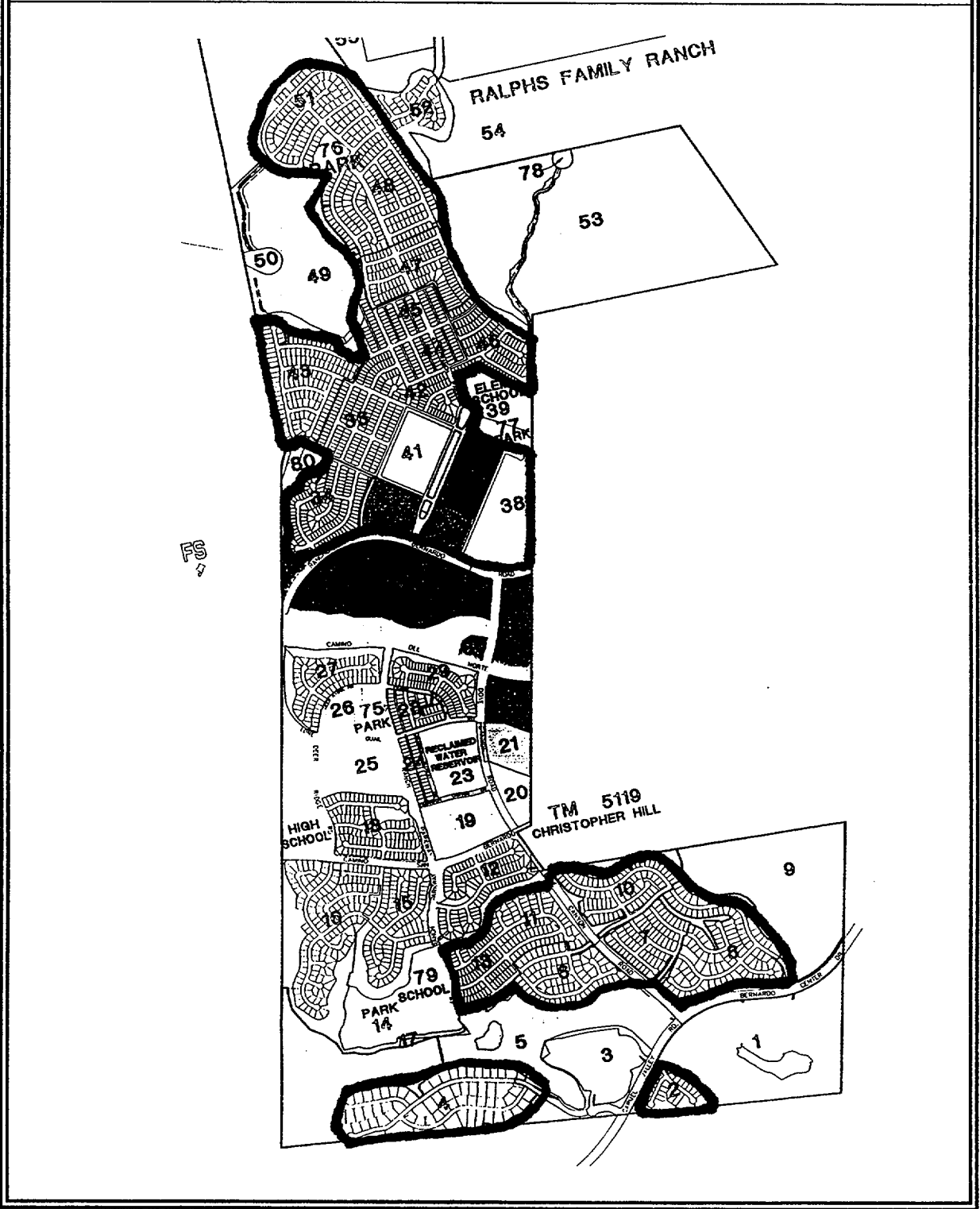
I have concluded on a finished lot value of \$210,000. Then, a deduction of \pm \$4,000 per lot is made to reflect the remaining fees yet to be paid, and a deduction of \pm \$6,000 per lot is made to reflect the minor remaining costs to get the lots to a fully finished condition. This results in an indication at \$200,000 per lot for the vacant lots.

Conclusion of Value

Based on the foregoing, the total value indication for Legacy (PLC/Christopher Homes) is calculated as follows:

3 completed/unsold homes @ \$459,000 =	\$ 1,377,000
14 homes under construction @ \$279,000 =	\$ 3,906,000
91 vacant lots @ \$200,000 =	<u>\$18,200,000</u>
	\$23,483,000

NEIGHBORHOODS TWO TO FOUR



NEIGHBORHOODS TWO TO FOUR (4S KELWOOD)

PROPERTY DATA

Location

Neighborhood Two consists of the land which lies to the south and southeast of Neighborhood One, on both sides of 4S Ranch Parkway and Dove Canyon Rd., extending south to Carmel Valley Rd./Bernardo Center Dr. Neighborhoods Three and Four lie to the north of Camino Del Norte, on both sides of 4S Ranch Parkway.

Record Owner/Ownership History

All of this land is owned by 4S Kelwood General Partnership (or other related entities), and is part of the bulk ownership which was acquired a number of years ago.

Description of Proposed Development

The 8 residential sites comprising the Neighborhood Two portion of this ownership are described as follows:

<u>Planning Area</u>	<u>No. DU</u>	<u>Lot Size or Density</u>	<u>Proposed Product</u>
13	82	45 x 100 or 4,500 sf lots	SFD; ±2,200-3,000 sf; ±\$435,000-\$485,000
2	24	60 x 105 or 6,300 sf lots	SFD; ±3,200-4,000 sf; ±\$520,000-\$600,000
7	65	60 x 105 or 6,300 sf lots	SFD; ±2,800-3,400 sf; ±\$500,000-\$540,000
10	75	60 x 105 or 6,300 sf lots	SFD; ±3,200-4,000 sf; ±\$520,000-\$600,000
11	75	60 x 105 or 6,300 sf lots	SFD; ±3,200-3,800 sf; ±\$515,000-\$570,000
6	73	70 x 105 or 7,350 sf lots	SFD; ±3,900-4,500 sf; ±\$570,000-\$650,000
8	105	65 x 125 or 8,125 sf lots	SFD; ±3,600-4,800 sf; ±\$570,000-\$670,000
4	<u>66</u>	110 x 120 or 13,200 sf lots	Custom homes; ±4,000-6,000 sf; ±\$800,000+
	565		

The 15 residential sites comprising the Neighborhoods Three and Four portions of this ownership are described as follows:

<u>Planning Area</u>	<u>No. DU</u>	<u>Lot Size or Density</u>	<u>Proposed Product</u>
35	272	9.4 acres @ 29/acre	SFA; ±800-1,200 sf; ±\$180,000-\$220,000
37	156	7.1 acres @ 22/acre	SFA; ±900-1,350 sf; ±\$195,000-\$240,000
40	212	11.8 acres @ 18/acre	SFA; ±1,200-1,650 sf; ±\$240,000-\$285,000
38	298	24.9 acres @ 12/acre	SFA; ±1,550-1,950 sf; ±\$290,000-\$330,000
41	129	14.4 acres @ 9/acre	SFD; ±1,750-2,150 sf; ±\$330,000-\$370,000
34	133	45 x 90 or 4,050 sf lots	SFD; ±2,200-2,600 sf; ±\$405,000-\$445,000
46	101	45 x 90 or 4,050 sf lots	SFD; ±2,200-2,600 sf; ±\$405,000-\$445,000
42	96	42 x 100 or 4,200 sf lots	SFD; n/a
36	127	50 x 100 or 5,000 sf lots	SFD; n/a

PROPERTY DATA, Continuing

<u>Planning Area</u>	<u>No. DU</u>	<u>Lot Size or Density</u>	<u>Proposed Product</u>
47	112	50 x 100 or 5,000 sf lots	SFD; n/a
44	60	50 x 103 or 5,150 sf lots	SFD; ±2,500-3,000 sf; ±\$455,000-\$505,000
45	81	50 x 103 or 5,150 sf lots	SFD; ±2,500-3,000 sf; ±\$455,000-\$505,000
48	175	60 x 100 or 6,000 sf lots	SFD; n/a
43	131	60 x 105 or 6,300 sf lots	SFD; n/a
51	114	70 x 100 or 7,000 sf lots	SFD; n/a
	2,197		

Current Status of Development

Grading and construction of infrastructure (streets and utilities) is well underway for Neighborhood Two, and sales of all or portions of 6 of the residential sites are currently pending. The sale of Planning Area 13 is due to close in June or July, the sale of the first takedown of Planning Area 11 is due to close in July or August, the sale of a portion of Planning Area 6 is due to close in August, and the sales of all or portions of Planning Areas 7, 8 and 10 are due to close by December.

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.

Highest and Best Use

The highest and best use of the subject land is concluded to be for 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 23 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 discount to a present value indication.

Land Values (At Condition Delivered to Builders)

The following concluded land values reflect the condition at which the land will be delivered to merchant builders -- mass graded superpad condition for the attached product or near finished lots for the detached product.

VALUATION, Continuing

29/Acre: Sale Nos. 1, 2 and 3 (Tanglewood, Summerwood and Garden Gate) support far upper limits at \$82,578 to 113,535 per unit for the mass graded superpad condition; considering a finished lot ratio of 36% and average home pricing of \$200,000, the indication is \$72,000 per unit; the conclusion is a value of \$70,000 per unit.

22/Acre: the analysis is similar to above; 36% of \$217,500 is \$78,300 per unit; the conclusion is a value of \$75,000 per unit.

18/Acre: similar to above; 36% of \$262,500 is \$94,500 per unit; the conclusion is a value of \$90,000 per unit.

12/Acre: similar to above; 36% of \$310,000 is \$111,600 per unit; the conclusion is a value of \$110,000 per unit.

9/Acre: similar to above; 36% of \$350,000 is \$126,000 per unit; the conclusion is a value of \$120,000 per unit.

4,050 s.f. Lots: based on previous analyses, considering a finished lot ratio of 39-40% and the projected average base home price of \$425,000 for these lots, the indication is \$165,750 to \$170,000 per finished lot; less \$12,000 per lot for remaining costs and fees; the conclusion is a value of \$155,000 per lot.

4,200 s.f. Lots: 39-40% of an estimated potential range of \$420,000 to \$460,000, or an average of \$440,000, is an indication at \$171,600 to \$176,000 per finished lot; less \$12,000 per lot for remaining costs and fees; the conclusion is a value of \$160,000 per lot.

4,500 s.f. Lots: the conclusion of \$175,000 per finished lot is based on the pending sale of Planning Area 13 (Sale No. 11); less \$12,000 per lot for remaining costs and fees; the conclusion of value is \$163,000 per lot.

5,000 s.f. Lots: 39-40% of an estimated potential range of \$445,000 to \$495,000, or an average of \$470,000, is an indication at \$183,300 to \$188,000 per finished lot; less \$15,000 per lot for remaining costs and fees; the conclusion is a value of \$170,000 per lot.

5,150 s.f. Lots: 39-40% of \$480,000 is \$187,200 to \$192,000 per finished lot; less \$15,000 per lot for remaining costs and fees; the conclusion is a value of \$175,000 per lot.

6,000 s.f. Lots: 39-40% of ±\$525,000 estimated average is \$204,750 to \$210,000 per finished lot; less \$17,000 per lot for remaining costs and fees; the conclusion is a value of \$190,000 per lot.

6,300 s.f. Lots: the conclusion of \$215,000 per finished lot is based on consideration of Sale Nos. 13 and 14, as well as 39-40% of a ±\$550,000 average home price; less \$17,000 per lot for remaining costs and fees; the conclusion is a value of \$198,000 per lot.

7,000 s.f. Lots: the conclusion of \$220,000 per finished lot is based on consideration of Sale Nos. 13, 14 and 15, as well as 39-40% of a ±\$565,000 average home price; less \$19,000 per lot remaining costs and fees; the conclusion is \$201,000 per lot.

7,350 s.f. Lots: the conclusion of \$230,000 per finished lot is based on the pending sale of these lots in Neighborhood Two (Sale No. 15); less \$19,000 per lot remaining costs and fees; the conclusion is \$211,000 per lot.

VALUATION, Continuing

8,125 s.f. Lots: the conclusion of \$240,000 per finished lot is based on the pending sale of these lots in Neighborhood Two (Sale No. 16); less \$20,000 per lot remaining costs and fees; the conclusion is \$220,000 per lot.

13,200 s.f. Lots: the conservative conclusion of \$290,000 is based on consideration of Sale Nos. 15 and 16, as well as a lower finished lot ratio of 37-38% on an average home price of \$800,000; less \$25,000 per lot remaining costs and fees; the conclusion is \$265,000 per lot.

Absorption/Rate of Land Sales

An independent market absorption study has not been prepared for the remaining undeveloped land in 4S Ranch. Thus, the estimated absorption or rate of land sales is based on the currently pending deals for most of the land in Neighborhood Two, and on the projections by 4S Kelwood (Newland Communities) for the remaining land. However, for conservative valuation purposes, some revisions have been made to slow down the absorption or push some of the land sales out another year.

The discounted cash flow analysis is done on an annual basis, commencing 2002/03 and continuing thereafter. Based on the estimated absorption, the land would sell off over a 6-year period, or from 2002/03 through 2007/08. This is fairly consistent with the projections by 4S Kelwood, which indicate that the final land sales would be in 2007.

In summary, based on the pending sales and the projections, the bulk of the land in Neighborhood Two (Planning Areas 2, 4, 6, 7, 8, 10, 11 and 13) is estimated to be sold in 2002/03 and 2003/04. However, the custom lots in Planning Area 4 are projected to sell off much more slowly, with a portion in 2004/05 and the remainder in 2006/07. Then, the land in Neighborhoods Three and Four is projected to sell from 2003/04 through 2007/08, with some Planning Areas being all in one year or period, and some being over two years or periods.

Project Costs

A first deduction is made for the remaining land development costs to get the subject land from its as is condition, raw and partially graded, to the condition at which it would be delivered to merchant builders, as previously described. Approximate cost figures have been obtained from the master developer (4S Kelwood/Newland Communities) as to the remaining costs to get the subject land to a finished condition at which it would be delivered to merchant builders, as previously described. It is estimated that these costs, as approximately allocated to Neighborhoods Two through Four are in the range of \$170,000,000 to \$190,000,000. For purposes of this valuation, I have used the upper end, or \$190,000,000. Then, for approximation purposes, I have estimated that the bulk of these costs would be spent evenly over the first five years or periods, or at \$35,000,000 per year, with the remainder of \$15,000,000 being spent in the last year.

VALUATION, Continuing

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.

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 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. However, for purposes of minimum market value, I have concluded on a relatively higher discount rate toward the upper end of the range at 28%.

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 \$110,977,331. This has been rounded to a minimum market value conclusion of \$110,000,000.

ADDENDA

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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	SEC Lone Quail Rd. & Deer Ridge Rd., Rancho Bernardo (Tanglewood)	4S Kelwood Gen'l Partnership William Lyon Homes	12/01	161	2,350	1,310-1,675 s.f. From low \$300,000's	±\$82,578 \$118,000	±36%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate
2	NEC Lone Quail Rd. & Deer Ridge Rd., Rancho Bernardo (Summerwood)	4S Kelwood Gen'l Partnership William Lyon Homes	12/01	95	2,800	1,579-1,898 s.f. Mid to high-\$300,000's	\$105,000 \$134,000	±36%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate
3	NEC 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
4	SEC 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
5	SEC 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 semi-finished lots; ±1.5% tax rate
6	NEC & SEC 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 semi-finished lots; ±1.5% tax rate
7	NWC 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Homestead)	4S Kelwood Gen'l Partnership Fieldstone Communities	12/99	103	5,500	2,860-3,300 s.f. \$489,900-\$509,900	\$176,369 \$200,284	40%	4S Ranch-Neighborhood One; sold as semi-finished lots; ±1.5% tax rate
8	SWC 4S Ranch Pkwy & Camino Del Norte, Rancho Bernardo (Ryland Heritage)	4S Kelwood Gen'l Partnership Ryland Homes	12/99	75	6,000	3,643-4,039 s.f. avg \$528,000-\$547,000	\$179,000 \$205,000	38%	4S Ranch-Neighborhood One; sold as semi-finished lots; ±1.5% tax rate
9	SWC 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 semi-finished lots; ±1.5% tax rate
10	S/S Camino San Bernardo, opposite Deer Ridge Rd., Rancho Bernardo (Talavera)	4S Kelwood Gen'l Partnership Davidson Communities	1/01 12/01 Escrow	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 semi-finished lots; ±1.5% tax rate
11	E/S 4S Ranch Pkwy, 2 nd tract S/O Camino San Bernardo, Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Buie Communities	Escrow	82	4,500	±2,200-3,000 s.f. ±\$435,000-\$485,000	\$155,500 \$175,000	38%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate
12	SEC Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Fieldstone Homes	Pend.	65	5,000	±2,800-3,400 s.f. ±\$500,000-\$540,000	\$190,000 \$206,000	40%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate

TABULATION OF RESIDENTIAL LAND SALES, Continuing

<u>No.</u>	<u>Location/Project Name</u>	<u>Seller/Buyer</u>	<u>Rec. Date</u>	<u>No. Lots</u>	<u>Min. Lot Size</u>	<u>Product</u>	<u>Price/Lot Finished Lot</u>	<u>Fin. Lot Ratio</u>	<u>Remarks</u>
13	NEC Dove Canyon Rd. @ Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Pulte Homes	Pend.	38	6,300	±3,200-4,000 s.f. ±\$520,000-\$600,000	±\$205,000 \$222,000	40%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate
14	W/S Dove Canyon Rd. @ Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Centex Homes	Escrow	32 <u>43</u> 75	6,300 7,350	±3,200-3,800 s.f. ±\$515,000-\$570,000	±\$200,000 \$215,000	40%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate
15	W/S Dove Canyon Rd., S/O Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership K. Hovnanian	Escrow	37	7,350	±3,900-4,500 s.f. ±\$570,000-\$650,000	\$212,000 \$230,000	38%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate
16	E/S Dove Canyon Rd. @ Painted Canyon Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Standard Pacific	Pend.	35	8,125	±3,600-4,800 s.f. ±\$570,000-\$670,000	\$220,000 \$240,000	39%	4S Ranch-Neighborhood Two; sold as semi-finished lots; ±1.5% tax rate
17	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	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
18	W/S Camino Ruiz, S/O Lazaña Dr., San Diego (Garden Homes)	n/a D.R. Horton	11/01	63	7,000	3,347-4,002 s.f. ±\$600,000-\$700,000	n/a \$275,000	42%	Santaluz master-planned community; has some golf course frontage; ±1.8% tax rate
19	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
20	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
21	S'y corner Camino Ruiz & Torrey Meadows, San Diego (Montea and Valonia)	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; to be delivered as near finished lots; ±1.8% tax rate
22	NWC "A" St. & "B" St., ±¼ mile W/O Camino Ruiz, San Diego (n/a)	McMillin Land Development Shea Homes	Escrow	168	5,000	2,529-3,250 s.f. \$487,000-\$552,000	n/a \$240,860	46%	Torrey Highlands Subarea IV; to be delivered as near fin. lots; incl. 26 lots for affordable housing; 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 (4S Ranch)

Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
REVENUES (Land Sales)						
Planning Area 2 (6,300 sf lots)	\$0	\$4,752,000	\$0	\$0	\$0	\$0
Planning Area 4 (13,200 sf lots)	\$0	\$0	\$8,745,000	\$0	\$8,745,000	\$0
Planning Area 6 (7,350 sf lots)	\$7,807,000	\$7,596,000	\$0	\$0	\$0	\$0
Planning Area 7 (6,300 sf lots)	\$12,870,000	\$0	\$0	\$0	\$0	\$0
Planning Area 8 (8,125 sf lots)	\$7,700,000	\$7,700,000	\$7,700,000	\$0	\$0	\$0
Planning Area 10 (6,300 sf lots)	\$7,524,000	\$7,326,000	\$0	\$0	\$0	\$0
Planning Area 11 (6,300 sf lots)	\$6,336,000	\$8,514,000	\$0	\$0	\$0	\$0
Planning Area 13 (4,500 sf lots)	\$13,366,000	\$0	\$0	\$0	\$0	\$0
Planning Area 34 (4,050 sf lots)	\$0	\$10,385,000	\$10,230,000	\$0	\$0	\$0
Planning Area 35 (29/acre)	\$0	\$0	\$0	\$0	\$19,040,000	\$0
Planning Area 36 (5,000 sf lots)	\$0	\$10,880,000	\$10,710,000	\$0	\$0	\$0
Planning Area 37 (22/acre)	\$0	\$0	\$11,700,000	\$0	\$0	\$0
Planning Area 38 (12/acre)	\$0	\$16,390,000	\$0	\$16,390,000	\$0	\$0
Planning Area 40 (18/acre)	\$0	\$9,540,000	\$0	\$9,540,000	\$0	\$0
Planning Area 41 (9/acre)	\$0	\$0	\$0	\$0	\$0	\$15,480,000
Planning Area 42 (4,200 sf lots)	\$0	\$0	\$0	\$15,360,000	\$0	\$0
Planning Area 43 (6,300 sf lots)	\$0	\$0	\$0	\$13,068,000	\$12,870,000	\$0
Planning Area 44 (5,150 sf lots)	\$0	\$0	\$0	\$10,500,000	\$0	\$0
Planning Area 45 (5,150 sf lots)	\$0	\$0	\$0	\$0	\$14,175,000	\$0
Planning Area 46 (4,050 sf lots)	\$0	\$0	\$0	\$7,905,000	\$7,750,000	\$0
Planning Area 47 (5,000 sf lots)	\$0	\$0	\$0	\$0	\$9,520,000	\$9,520,000
Planning Area 48 (6,000 sf lots)	\$0	\$0	\$0	\$0	\$11,400,000	\$21,850,000
Planning Area 51 (7,000 sf lots)	\$0	\$0	\$0	\$0	\$11,457,000	\$11,457,000
Total	\$55,603,000	\$83,083,000	\$49,085,000	\$72,763,000	\$94,957,000	\$58,307,000
PROJECT COSTS						
Land Development	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$35,000,000	\$15,000,000
Overhead/Marketing 5%	\$2,780,150	\$4,154,150	\$2,454,250	\$3,638,150	\$4,747,850	\$2,915,350
Total	\$37,780,150	\$39,154,150	\$37,454,250	\$38,638,150	\$39,747,850	\$17,915,350
NET CASH FLOWS	\$17,822,850	\$43,928,850	\$11,630,750	\$34,124,850	\$55,209,150	\$40,391,650
DISCOUNT FACTOR 28%	0.877193	0.704225	0.588235	0.505051	0.442478	0.393701
PV OF CASH FLOWS	\$15,634,079	\$30,935,810	\$6,841,618	\$17,234,773	\$24,428,827	\$15,902,224
PRESENT VALUE	\$110,977,331					

**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

Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 • FULLERTON, CALIFORNIA 92835-4128
(714) 738-1595 • FAX (714) 738-4371

August 28, 2002

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

Re: Community Facilities District No. 6
(4S Ranch)

Dear Ms. Burgoyne:

A Summary Appraisal Report dated May 30, 2002 was prepared by me on the appropriate taxable properties within the above-referenced CFD, and the appraisal had a date of value of May 1, 2002. This letter is to confirm that, based on my knowledge of the current residential market in this general area, and based on the significant amount of development which has occurred in 4S Ranch over the past ± 4 months, the current value would be at least as high as the value reported in the May 30, 2002 appraisal report.

Sincerely,

A handwritten signature in black ink, reading 'Stephen G. White'.

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

SGW:sw
Ref: 02015

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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 each 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

“4S Ranch Middle School” means 4S Ranch Middle School of the School District.

“4S Ranch Middle School Facilities Costs” means the amounts, not to exceed the initial deposit to the 4S Ranch Middle School Hold Back Account, necessary to finance the construction of 4S Ranch Middle School .

“4S Ranch Middle School Hold Back Account” means the account by that name established within the School Facilities Fund pursuant to provisions of the Indenture.

“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.

“Administrative Expense Fund” means the fund by that name established pursuant to the provisions of 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 Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the 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 this 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 Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the 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 \$40,000 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2003.

“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 May 30, 2002.

“Appraiser” means Stephen G. White, MAI.

“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, the 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 thereto.

“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 Series 2002 Bonds and any Parity Bonds authorized and issued by and at anytime Outstanding pursuant to this Indenture.

“Bond Service Fund” means the fund created and established pursuant to the provisions of 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.

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

“Costs of Issuance” means, as to each Series of the Bonds, all of costs of issuing such Series of the Bonds, including but not limited to, all printing and document preparation expenses in connection with this Indenture and any Supplemental Indenture, such Series of 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 such Series of 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 such Series 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 provisions of the Indenture.

"Delinquency Proceeds" means the net amounts 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 Special Tax resulting from the delinquency in the payment of 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" shall mean 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 Treasurer.

"Deputy Superintendent" means the Deputy Superintendent of the School District, acting for and on behalf of the District.

"District" means Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District.

"DTC" shall mean 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.

"Indenture" means the 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.

“Interest Account” means the account by that name established within the Bond Service Fund pursuant to the provisions of 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.

“Land Secured Debt” means as to any Taxable Property (as such term is defined in the Special Tax RMA), (a) the principal amount of all Outstanding Series 2002 Bonds, Outstanding Parity Bonds previously issued and the Parity Bonds proposed to be issued allocable to such Taxable Property, (b) the principal amount of all other bonds secured by special taxes allocable to such Taxable Property and (c) the amount of all fixed lien assessments levied on such Taxable Property.

“Legislative Body” means the Board of Education of the School District, acting as the legislative body of the District.

“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 Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

“Nominee” shall mean the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to each respective series of the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation;
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 of the Indenture; 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.

“Parity Bonds” means Bonds hereinafter issued which are secured by and payable from an irrevocable first lien on the Net Special Tax Revenues which lien is on a parity with the lien securing the Series 2002 Bonds.

“Participant” shall mean 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, 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 repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- 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 hereby 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 or Improvement Area B Special Tax Revenues, as applicable, identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area A or Improvement Area B Special Tax, as applicable.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 633 West 5th Street, 12th Floor, Los Angeles, California 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

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

"Record Date" shall mean 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, as to each respective series of the Bonds, an amount initially equal to \$2,284,124.97 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.

"School Facilities" means the types of facilities described in Exhibit A to Resolution No. 63-98 of the Board of Education of the School District adopted February 17, 1998.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Act.

"School Facilities Fund" means the fund by that name established pursuant to the provisions of the Indenture.

"Series" means any series of the Bonds issued pursuant to this Indenture.

"Series 2002 Bonds" means the \$25,000,000 Poway Unified School District Community Facilities District No. 6 Special Tax Bonds, Series 2002 issued pursuant to the Indenture.

“Special Tax” means the Special Taxes authorized to be levied in the District to finance the acquisition or construction of the School Facilities pursuant to the Act and the Special Tax RMA excepting therefrom (a) the One -Time Special Tax (as defined in the Special Tax RMA) and (b) the Assigned Annual Special Tax (as defined in the Special Tax RMA) for Undeveloped Property (as defined in the Special Tax RMA) located in Zone A (as defined in the Special Tax RMA) of the 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.

“Special Tax Revenues” means (a) the proceeds of the Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

“Special Tax RMA” means the rate and method of apportionment of the Special Tax approved at the special election held in the District on March 24, 1998, as may be modified from time to time in accordance with the Act.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Rating Services, its successors and assigns.

“State” means the State of California.

“Superintendent” means the Superintendent of the School District, acting for and on behalf of the District.

“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 hereof or supplemental hereto; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“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.

“Yield” has the meaning assigned to such term for purposes of Section 148(f) of the Code.

Establishment of Funds and Accounts

Special Tax Fund.

A. The District shall, no later than the tenth (10th) Business Day after which 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 Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, such amounts shall be deposited in the Special Tax Fund.

B. With the exception of Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of paragraph C below, the Special Tax Revenues deposited in the Special Tax Fund shall be held in trust or transferred to the following other 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 Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first 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 from mandatory sinking fund payments on such date pursuant to the provisions of the Indenture.
4. On or after March 2 and September 2 of each year after making the transfer and deposits required under paragraphs 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 paragraphs 1. through 4. above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the 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 paragraphs 1. through 5. above, upon receipt of a written request of an Authorized Representative, the Fiscal Agent shall transfer from the 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 paragraphs 1. through 6. above, monies remain in the Special Tax Fund, such monies shall remain on deposit in the Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 6. above, provided, however, that if the District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Special Tax Requirement (as defined in the Special Tax RMA), then excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation and improvement of School Facilities.

C. The Fiscal Agent shall, upon receipt of 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.

D. When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Special Tax Fund shall be transferred to the District and used for any lawful purpose under the Act.

Bond Service Fund.

Interest Account. All moneys in the Interest Account 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).

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 related to each Series of the Bonds have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of each Series of the Bonds shall be transferred to the School Facilities Fund.

School Facilities Fund.

The Fiscal Agent shall, from time to time, disburse monies from the School Facilities Fund to pay School Facilities' Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative, the Fiscal Agent shall pay the School Facilities' Costs from amounts in the School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment hereunder (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 School Facilities' Costs shall be paid jointly.

The Fiscal Agent shall, from time to time, disburse monies from the 4S Ranch Middle School Hold Back Account to pay 4S Ranch Middle School Facilities Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached hereto as

Exhibit E, the Fiscal Agent shall pay the 4S Ranch Middle School Facilities Costs from amounts in the 4S Ranch Middle School Hold Back Account directly to the contractor or such other person, corporation or entity entitled to payment hereunder (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 4S Ranch Middle School Facilities Costs shall be paid jointly.

Upon receipt by the School District of aggregate funds for the construction of 4S Ranch Middle School in the amount of \$24,500,000 or more, the School District shall cause an Authorized Representative to provide written notification of such receipt to the Fiscal Agent and written direction to close the 4S Ranch Middle School Hold Back Account. Upon the earlier of (i) receipt of such written direction from an Authorized Representative ordering the Fiscal Agent to close the 4S Ranch Middle School Hold Back Account or (ii) September 1, 2005, the Fiscal Agent shall close the 4S Ranch Middle School Hold Back Account. All funds remaining in the 4S Ranch Middle School Hold Back Account upon its closure shall remain in the School Facilities Fund and shall be utilized first to pay any remaining balance, if any, of the purchase price for the New Middle School Site and second to pay other School Facilities Costs.

After the final payment or reimbursement of all School Facilities' Costs 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 School Facilities Fund to the Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the provisions of the Indenture. Upon such transfer, the School Facilities Fund 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 School Facilities Fund, upon written instruction from the District, 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 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 from the Special Tax Fund to the Administrative Expense Fund and the Bond Service Fund required by the Indenture 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 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 School Facilities Fund until the earlier of (i) final payment or reimbursement of all School Facilities' Costs or (ii) October 1, 2005 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 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 and the Bond Service 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.

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.

Investment of Funds.

Unless otherwise specified in this Indenture, monies in the Special Tax Fund, the Bond Service Fund, the School Facilities Fund, the Reserve Fund, the Costs of Issuance Fund and Administrative Expense Fund shall, at the written direction of the District executed by 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 the District executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything herein 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.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements, which include detail for all investment transactions made by the Fiscal Agent under the Indenture. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

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 where provided otherwise herein, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

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.

The Trustee is authorized, in making or disposing of any authorized investment, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

Parity Bonds.

Subject to the satisfaction of the specific conditions set forth below, the District may at any time after the issuance and delivery of the Series 2002 Bonds issue Parity Bonds payable from Net Special Tax Revenues and other amounts deposited in the funds and accounts created under the Supplemental Indenture (other than in the Rebate Fund and the Administrative Expense Fund) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under this Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be used for the purpose of financing additional School Facilities

Costs or refunding all or a portion of the Bonds or any Parity Bonds then outstanding. The issuance of any Series of Parity Bonds shall be subject to the following additional specific conditions, which are conditions precedent to the issuance of such Parity Bonds:

1. The aggregate principal amount of the Series 2002 Bonds and all Parity Bonds issued may not exceed \$130,000,000; 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.
2. The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.
3. The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:
 - A. The purpose for which such Parity Bonds are to be issued and the fund or funds and accounts therein, if any, into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of financing additional School Facilities Costs or refunding any Outstanding Bonds or Parity Bonds, including payment of all costs incidental to or connected with such refunding;
 - B. The authorized principal amount of such Parity Bonds;
 - C. The date and the maturity date or dates of such Parity Bonds; provided that (1) each maturity date shall fall on a September 1, (2) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (3) fixed serial maturities or mandatory sinking fund payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;
 - D. The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;
 - E. The denominations and method of numbering of such Parity Bonds;
 - F. The amount and due date of each mandatory sinking fund payment, if any, for such Parity Bonds;
 - G. The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Fund to increase the amount therein to the Reserve Requirement;
 - H. The form of such Parity Bonds; and

- I. Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
4. There shall have been received by the Fiscal Agent the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Fiscal Agent (unless the Fiscal Agent shall accept any of such documents bearing a prior date):
- A. A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;
 - B. A written request of the District as to the delivery of such Parity Bonds;
 - C. An opinion of Bond Counsel to the effect that (1) the District has the right and power under the Act to adopt the Supplemental Indenture relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (2) the Indenture creates the valid pledge which it purports to create of the Net Special Tax Revenues and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (3) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures;
 - D. and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds, the Bonds and Parity Bonds theretofore issued;
 - E. A certificate of an Authorized Representative containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;
 - F. A certificate of an Authorized Representative certifying that:
 - (1) The District has received a certificate from one or more Special Tax Consultants which, when taken together, certify that (a) the amount of the maximum Special Taxes that may be levied pursuant to the Special Tax RMA in each remaining Bond Year based only on the Taxable Property (as such term is defined in the Special Tax RMA) existing as of

the date of such certificate is at least 1.10 times Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, provided, however, there shall be excluded from such calculation the Special Taxes on any parcel then delinquent in the payment of Special Taxes; and provided further that, for purposes of making such certifications, the Special Tax Consultant may rely on reports or certificates of such other persons as may be acceptable to the District, Bond Counsel and the underwriter of the proposed Parity Bonds; and

- (2) Except in the case of the issuance of Parity Bonds to refund Outstanding Bonds or Parity Bonds, the District has received an Appraisal indicating that (a) the aggregate appraised value of all Taxable Property within the District is not less than three (3) times the aggregate amount of Land Secured Debt allocable to such Taxable Property and (b) the aggregate appraised value of all Undeveloped Property (as such term is defined in the Special Tax RMA) within the District is not less than 2.5 times the aggregate amount of Land Secured Debt allocable to such Undeveloped Property; and

- G. Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

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 hereto for any of the following purposes:

1. to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, 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;
2. 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;
3. to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners;
4. 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; or
5. to provide for the issuance of Parity Bonds pursuant to the terms of the Indenture.

Exclusive of the Supplemental Indentures hereto provided for in the paragraph above, 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 Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing herein 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 Special Tax Revenues superior to the pledge provided for in 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 hereto 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 hereunder, subject in all respects to such modifications and amendments. Notwithstanding anything in the Indenture 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.

After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be

exchanged at the corporate trust office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

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 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 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.

Limitation on 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 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. 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 Special Taxes. The District shall comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, as applicable. 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 Special Tax RMA, as applicable, 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 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 tax bills to such property owners not later than the date on which the Auditor/Tax Collector of the County of San Diego annually mails the property tax bills.

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 Special Tax RMA, as applicable), 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 Special Tax RMA, as applicable) 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 the District which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Special Tax RMA or to limit the power or authority of the District to levy Special Taxes, pursuant to the Special Tax RMA, the District shall, from funds available under the Indenture, 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 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 covenant 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 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 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 Special Tax Revenues, as applicable, 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 hereafter 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.

1. 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.
2. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
3. 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

4. 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:

1. 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;

2. By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
3. 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 herein 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 herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

APPENDIX E

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of September 1, 2002 by and among the Poway Unified School District on behalf of Community Facilities District No. 6 (4S Ranch) 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 in its capacity as Dissemination Agent (the "Dissemination Agent") in connection with the issuance of the Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District 2002 Special Tax Bonds (the "2002 Bonds");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of September 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 \$25,000,000; 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.

“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, 2003, 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 Community Facilities District No. 6 and by 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 Community Facilities District No. 6 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 Community Facilities District No. 6.
- (vi) Information regarding the annual special taxes levied in Community Facilities District No. 6, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;

- (vii) Status of foreclosure proceedings of parcels within Community Facilities District No. 6 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 Community Facilities District No. 6 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 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 Community Facilities District No. 6;
- (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 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 Community Facilities District No. 6 approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report; and
- (xiii) With respect to any improvement area (each an "Improvement Area") created within Community Facilities District No. 6, the following information:
 - A description of the status of formation of the Improvement Area,
 - The amount of bonds authorized for the Improvement Area,
 - The amount of bonds issued for the Improvement Area,
 - The date of issuance of such bonds, and

- A description of the use of the proceeds of bonds issued with respect to such Improvement Area.

(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 Agent 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 Underwriters 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

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

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

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: Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District 2002 Special Tax Bonds

Date of Issuance: _____, 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 _____ 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, as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

David Taussig & Associates, 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, Attention: Municipal Research Department.

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Best, Best & Krieger, San Diego, California, Bond Counsel to Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:

Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098

**Re: Poway Unified School District
Community Facilities District No. 6 (4S Ranch)
\$25,000,000 2002 Special Tax Bonds and
Final Opinion of Bond Counsel**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by Community Facilities District No. 6 (4S Ranch) of the Poway Unified School District (the "District") of \$25,000,000 aggregate principal amount of bonds designated "Poway Unified School District Community Facilities District No. 6 (4S Ranch) 2002 Special Tax Bonds" (the "Bonds"). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 15-2003 adopted by the Board of Education of the Poway Unified School District (the "School District") acting in its capacity as the Legislative Body of the District on August 19, 2002, and the Bond Indenture executed in connection therewith dated as of August 1, 2002, by and between the District and State Street Bank and Trust Company of California, N.A., as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the Underwriter, the Developer and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally

recognized bond counsel. No opinion is expressed herein as to any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

It is to be understood that the rights and obligations under the Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Bonds. The Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the Special Taxes to the Owners of the Bonds. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Special Taxes, and from other funds and accounts pursuant to the Bond Indenture, and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).
2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.
3. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Very truly yours,

APPENDIX G

BOOK-ENTRY SYSTEM

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 School District which the School District believes to be reliable, but the School 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 School 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 School 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 School 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 School 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 School 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 School District believes to be reliable, but the School 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 School District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the 2002 Bonds. If the School District determines to replace DTC with another qualified securities depository, the School 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 School 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 School 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 School 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 School 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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