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PRELIMINARY OFFICIAL STATEMENT DATED JUNE 22, 2006

NEW ISSUE - BOOK-ENTRY ONLY

NO RATING

In the opinion of McFarlin & Anderson LLP, Lake Forest, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and agreements, interest on the Bonds 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. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternate minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "CONCLUDING INFORMATION — Tax Matters" herein.

\$5,130,000*

**COMMUNITY FACILITIES DISTRICT NO. 87-1
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX REFUNDING BONDS, SERIES 2006**

Dated: Date of Delivery

Due: September 1, as shown on inside front cover

The Community Facilities District No. 87-1 of the County of Riverside Special Tax Refunding Bonds, Series 2006 are being issued for the principal purpose of refunding the outstanding bonds heretofore issued by Community Facilities District No. 87-1 of the County of Riverside. Those bonds had been issued to provide funds to pay costs of the acquisition and construction of certain public facilities required in connection with the development of the land within the District.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, under a Bond Indenture, dated as of July 1, 2006, by and between the District and U.S. Bank National Association, as trustee. The Bonds are being issued in fully registered book-entry form only in the denomination of \$5,000 or any integral multiple thereof and, when executed and delivered, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their interests in the Bonds.

Interest on the Bonds is payable semiannually on each March 1 and September 1, commencing March 1, 2007. Such interest and the principal of the Bonds are payable by the Trustee to Cede & Co., and such payments are expected to be disbursed to the beneficial owners of the Bonds through the participants of DTC.

The Bonds are payable solely from the net proceeds of an annual Special Tax to be levied and collected from Taxable Property in the District remaining after money is set aside for the payment of Administrative Expenses and from certain other funds pledged under the Indenture, as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the County Board of Supervisors, acting as the legislative body of the District, and by the vote of qualified landowner-electors in the District and as it may be amended from time to time. The Special Tax is collected in the same manner and at the same time as *ad valorem* property taxes applicable to the Taxable Property.

The Bonds are subject to optional redemption prior to maturity as described herein.

Neither the faith and credit nor the general taxing power of the County, the District, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Net Taxes, no taxes are pledged to the payment of the Bonds.

This cover page contains certain information for general reference only. It is not a summary of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are not rated by any rating agency, and investment in the Bonds involves risks which may not be appropriate for certain investors. Therefore, only persons with substantial financial resources who understand the risks of investment in the Bonds should consider such an investment. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered in addition to the matter set forth herein in evaluating the investment quality of the Bonds.

MATURITY SCHEDULE
(See Inside Cover)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by McFarlin & Anderson LLP, Lake Forest, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the County by the County Counsel and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC or its agent on or about July 20, 2006.

STONE & YOUNGBERG LLC

The date of this Official Statement is July ____, 2006.

* Preliminary, subject to change.

MATURITY SCHEDULE*
COMMUNITY FACILITIES DISTRICT NO. 87-1
OF THE COUNTY OF RIVERSIDE

SPECIAL TAX REFUNDING BONDS, SERIES 2006

<i>Maturity September 1</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP No.†</i>
2007				
2008				
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. Copyright© 1999-2006 Standard & Poor's, a Division of The McGraw Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Community Facilities District nor the Underwriter takes any responsibility for the accuracy of such numbers.

COUNTY OF RIVERSIDE, CALIFORNIA

BOARD OF SUPERVISORS

Robert Buster, *District 1, Chairman*
John F. Tavaglione, *District 2, Vice Chairman*
Jeff Stone, *District 3*
Roy Wilson, *District 4*
Marion Ashley, *District 5*

COUNTY STAFF

Larry Parrish, *County Executive Officer*
Robert Byrd, *CGFM, Auditor-Controller*
Paul C. McDonnell, Jr., *Treasurer-Tax Collector*
Joe S. Rank, *County Counsel*
William Luna, *County Finance Director*

SPECIAL SERVICES

Bond Counsel

McFarlin & Anderson LLP
Lake Forest, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Special Tax Consultant

Albert A. Webb Associates
Riverside, California

Appraiser

Stephen G. White, MAI
Fullerton, California

Market Absorption Consultant

Empire Economics Corporation
Capistrano Beach, California

Trustee/Escrow Agent

U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Investment in the Bonds involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth and/or income) who understand (either alone or with competent investment advice) the risks of investment in the Bonds should consider such investment.

All information that the County or the Community Facilities District intends to present to investors regarding Community Facilities District No. 87-1 of the County of Riverside and the Bonds is contained in this Official Statement. While the County maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the County. No dealer, broker, salesperson or other person has been authorized by the County or the District to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the County or the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information set forth herein has been obtained from the County and certain other sources. Such information is believed to be reliable but is not guaranteed as to its accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither 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 District or of the owners of property within the District or any matters expressed herein since the date hereof. All summaries contained herein of the Bond Indenture or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions.

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.

**CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future development of property within the District and the costs associated with such development.

The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the District has agreed to provide certain on-going financial and operating data for a limited period of time (see "CONCLUDING INFORMATION —Continuing Disclosure" and Appendix C hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

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

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

TABLE OF CONTENTS

Page

INTRODUCTION 1

THE REFUNDING PLAN 2

THE BONDS 3

 Authority for Issuance 3

 Purpose of the Bonds 3

 Description of the Bonds 3

 Limited Obligation..... 4

 Redemption..... 4

 Notice of Redemption..... 4

 Parity Bonds..... 5

 Book-Entry Only System..... 5

ESTIMATED SOURCES AND USES OF FUNDS 6

DEBT SERVICE SCHEDULE..... 6

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS 7

 General..... 7

 The Special Tax 7

 Delinquent Special Taxes 12

 Reserve Account..... 13

 Covenant for Foreclosure 14

 Other Payments and Credits 15

 Property Values 16

THE DISTRICT..... 18

 General Description and Location of the District..... 18

 Properties, Ownership and Values..... 18

 Direct and Overlapping Debt..... 22

SPECIAL RISK FACTORS 22

 Insufficiency of the Special Tax Revenues..... 23

 Uncertainties in Land Development – General..... 24

 Future Land Use Regulations and Growth Control Initiatives 25

 Geologic, Topographic and Climatic Conditions 26

 Hazardous Substances 26

 Multiple Species Habitat Conservation Issues..... 27

 Enforcement Delays - Bankruptcy..... 28

 FDIC/Federal Government Interests in Parcels 28

 Direct and Overlapping Indebtedness..... 29

 Reductions in Property Values 29

 No Acceleration Provision..... 29

 Ballot Initiatives and Legislation..... 29

 Proposition 218..... 29

 Loss of Tax Exemption..... 30

 No Ratings - Limited Secondary Market..... 31

TABLE OF CONTENTS

(continued)

	<i>Page</i>
CONCLUDING INFORMATION	31
Certain Legal Matters	31
Tax Matters	31
IRS Audit of Tax-Exempt Bond Issues	33
Professionals Involved in the Financing	33
Continuing Disclosure	33
Litigation.....	34
No Ratings	35
Underwriting.....	36
Verification of Mathematical Computations	36
Miscellaneous	36
APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	A-1
APPENDIX B - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 87-1 OF THE COUNTY OF RIVERSIDE.....	B-1
APPENDIX C - FORM OF CONTINUING DISCLOSURE AGREEMENT.....	C-1
APPENDIX D - INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY ...	D-1
APPENDIX E - PROPOSED FORM OF OPINION OF BOND COUNSEL	E-1
APPENDIX F - SUMMARY APPRAISAL REPORT	F-1
APPENDIX G - MARKET ABSORPTION STUDY	G-1

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\$5,130,000*
COMMUNITY FACILITIES DISTRICT NO. 87-1
OF THE COUNTY OF RIVERSIDE

SPECIAL TAX REFUNDING BONDS, SERIES 2006

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and attached appendices, is to provide certain information concerning the Community Facilities District No. 87-1 of the County of Riverside Special Tax Refunding Bonds, Series 2006 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture, dated as of July 1, 2006 (the “Indenture”), by and between Community Facilities District No. 87-1 of the County of Riverside (the “District”) and U.S. Bank National Association, as trustee (the “Trustee”), for the principal purpose of refunding outstanding bonds heretofore issued by the District in order to provide funds to pay costs of the acquisition and construction of certain public facilities (the “Prior Bonds”).

The Bonds are payable from the proceeds of an annual special tax (the “Special Tax”) to be levied and collected from Taxable Property (as defined herein) in the District which remain after the payment of Administrative Expenses (as defined herein). The Special Tax is to be levied according to the rate and method of apportionment of special tax (the “Rate and Method of Apportionment”) approved by the Board of Supervisors (the “Board of Supervisors”) of the County of Riverside (the “County”), as the legislative body of the District, and by the vote of landowner-electors in the District at an election held on December 8, 1987 and as it may be amended from time to time. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — The Special Tax” and Appendix B — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 87-1 OF THE COUNTY OF RIVERSIDE.” The Special Tax will be collected in the same manner and at the same time as *ad valorem* property taxes applicable to the Taxable Property.

The District is located in an unincorporated portion of the County northwest of the City of Perris and west of Interstate 215 between Morgan Street and Nuevo Road. A map showing the general location of the District, a diagram showing its boundaries and aerial photographs of the District appear immediately following the Table of Contents. The District consists of 81 assessor’s parcels with an aggregate area of approximately 424 acres. Four of the 81 parcels, with an aggregate area of almost 12 acres, are owned by the Metropolitan Water District of Southern California (“MWD”). While the District has continued to levy and collect the Special Tax applicable to these parcels subsequent to MWD’s purchase of them, they have been excluded from the description of the Taxable Property appearing herein because of uncertainties as to MWD’s ultimate plans with respect to them. One other parcel, comprising approximately 1% of an acre has also been excluded from the description of the Taxable Property because it is not deemed developable in its own right. Thus, the term “Taxable Property” as used herein refers to 76 assessor’s parcels with an estimated area (net of past and estimated future street dedications) of approximately 412 acres. For purposes of the Appraisal identified below, the Taxable Property has been grouped into 34 ownerships. Ten of the ownerships, containing approximately 88 net acres, are improved with structures, typically industrial buildings; and 24 of the ownerships, with an aggregate area of approximately 324 acres, are either

* Preliminary, subject to change.

vacant or have only nominal improvements. Several of the owners of improved parcels also own unimproved parcels.

The District has received a limited appraisal of the property (the "Appraisal"), dated as of May 25, 2006, which was prepared by Stephen G. White, MAI, of Fullerton, California (the "Appraiser"). A copy of the Appraisal is set forth in Appendix F. Subject to the assumptions and limiting conditions set forth in the Appraisal, the Appraiser is of the opinion that, as of May 15, 2006, the aggregate value of the 76 parcels mentioned above was \$122,020,000 or approximately 23.8* times the principal amount of the Bonds. However, the ratio of the value of the various ownerships as set forth in the Appraisal to their respective shares of the Bonds (based upon their respective shares of the maximum Special Tax that may be levied) varies substantially. See "THE DISTRICT — Properties, Ownership and Values" and Appendix F.

The Bonds are not rated by any rating agency, and investment in the Bonds involves risks which may not be appropriate for certain investors. Therefore, only persons with substantial financial resources who understand the risks of investment in the Bonds should consider such an investment. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered in addition to the matter set forth herein in evaluating the investment quality of the Bonds.

Brief descriptions of the plan for the refunding of the Prior Bonds, the Bonds, the security for the Bonds, the Special Tax, the County and the District are included in this Official Statement together with summaries of certain provisions of the Bonds, the Indenture and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and other documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, copies of which are available for inspection at the office of the Clerk of the Board of Supervisors.

Unless otherwise defined elsewhere in this Official Statement, capitalized terms shall have the meanings assigned to them in the Indenture.

THE REFUNDING PLAN

The Bonds are being issued to provide funds, along with the additional funds described below, to refund the entire outstanding \$6,770,000 principal amount of the Prior Bonds. In addition to proceeds derived from the sale of the Bonds, certain amounts on deposit for the benefit of the Prior Bonds will also be applied to the refunding of the Prior Bonds. In order to accomplish such refunding, the Community Facilities District will deposit in the Escrow Fund (the "Escrow Fund") established pursuant to the Escrow Agreement, dated as of July 1, 2006, by and between the District and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), Bond proceeds and other moneys described above in an aggregate amount which will be sufficient, when combined with the earnings to be derived from the investment thereof, to redeem the Prior Bonds on September 1, 2006 at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date of redemption. Money on deposit in the Escrow Fund will be invested in United States Treasury State and Local Government Series Securities maturing on or before September 1, 2006. The Escrow Agent will give notice to the owners of the Prior Bonds maturing after September 1, 2006, in accordance with the requirements of the document pursuant to which the Prior Bonds were issued,

* Preliminary, subject to change.

that such Prior Bonds will be redeemed on September 1, 2006; and the Prior Bonds will be deemed discharged as a result thereof. Upon issuance of the Bonds, Grant Thornton LLP, of Minneapolis Minnesota (the “Verification Agent”) will deliver a report verifying the accuracy of the calculations demonstrating the sufficiency of the moneys deposited in the Escrow Fund for such purpose. See “CONCLUDING INFORMATION — Verification of Mathematical Computations” herein.

THE BONDS

Authority for Issuance

The Mello–Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the California Government Code) (the “Act”), was enacted to provide an alternate method of financing certain public capital facilities and services, especially in developing areas of the State of California (the “State”). Once duly established by a local governmental agency, a community facilities district is a legally constituted governmental entity, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of a district’s qualified electors and compliance with the provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district to finance certain public improvements and may levy and collect a special tax within such district to repay such indebtedness. The legislative body is also authorized to issue bonds to refund such indebtedness, subject to compliance with the provisions of the Act.

Pursuant to the Act, on December 8, 1987 the Board of Supervisors adopted resolutions providing for the establishment of the District and calling an election to authorize the issuance of bonds and the levying of a special tax within the District. On March 22, 1988, at an all-mailed ballot election held pursuant to the Act, the then owners of land within the District, who under the terms of the Act were the qualified electors within the District, authorized the issuance of up to \$11,000,000 principal amount of special tax bonds to finance certain public facilities to serve the property within the District and approved the Rate and Method of Apportionment of the Special Tax to pay the principal of and interest on such bonds.

On November 20, 1990, the District issued the Prior Bonds in the aggregate principal amount of \$8,900,000. Proceeds derived from the sale of the Prior Bonds were used to finance certain infrastructure facilities, including roadway, water, sewer and storm drain improvements. All of those facilities have been completed and accepted by the appropriate public agency. Pursuant to the Indenture, no additional bonds may be issued on a parity with the Bonds to fund additional improvements; such additional bonds may be issued only to effect a refunding of the Bonds. See “— Parity Bonds” below.

Purpose of the Bonds

The Bonds are being issued for the principal purpose of providing funds to be used, along with certain money on deposit in funds and accounts relating to the Prior Bonds, for the refunding of the entire outstanding principal amount of the Prior Bonds. See “THE REFUNDING PLAN.”

Description of the Bonds

The Bonds will be issued in book-entry form as fully registered Bonds in denominations of \$5,000, or any integral multiple thereof (not exceeding the principal amount maturing at any one time), and will be dated the date of their initial issuance (the “Delivery Date”). Purchasers of Bonds

will not receive certificates representing their beneficial ownership of Bonds; instead, such purchasers are expected to receive credit balances on the books of their respective nominees. See “— Book-Entry Only System” and Appendix D.

The Bonds will mature on September 1 in the principal amounts and years, and will bear interest at the rates, shown on the cover of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable semiannually on March 1 and September 1 of each year, commencing March 1, 2007 (each an “Interest Payment Date”).

Limited Obligation

The Bonds are not general obligations of the County or the District but are limited obligations of the District payable solely from the proceeds of the Special Tax remaining after money is set aside for the payment of Administrative Expenses and from certain funds and accounts as provided in the Indenture. Neither the full faith and credit nor the general taxing power of the County, the State or any political subdivision thereof (other than the power of the District to levy the Special Tax) is pledged to the payment of the Bonds.

Redemption

The Bonds may be redeemed at the option of the District prior to their respective maturity dates on any Interest Payment Date, in whole, or in part from such maturities as are selected by the District and by lot within a maturity, from funds derived by the District from any source (including the proceeds of bonds issued in order to refund the Bonds), at the following redemption prices (expressed as a percentage of the principal amount to be redeemed) together with accrued interest to the date fixed for redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
March 1, 2007 through March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and thereafter	100

The Special Tax is not permitted to be prepaid (except in the case of the Special Tax applicable to a parcel acquired by a governmental agency), so a redemption of Bonds prior to their respective maturity dates would most probably occur, if at all, as a result of a refunding or the receipt by the District of payments pursuant to settlement agreements with property owners or an agreement between the District and Eastern Municipal Water District. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Other Payments and Credits.”

Notice of Redemption

The Indenture provides that the Trustee shall mail by first class mail a notice of redemption to the Owners of the Bonds selected for redemption and to certain other entities not less than 30 nor more than 45 days before the redemption date. Each notice of redemption is required to state: (i) the CUSIP numbers, the bond numbers and maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds or all of the Bonds of one maturity are to be redeemed, the bond numbers need not be specified; (ii) the date fixed for redemption and surrender of the Bonds to be

redeemed; (iii) the redemption price; (iv) the place where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, the portion thereof which is to be redeemed; (vi) the date of issue of the Bonds; (vii) the rate of interest borne by each Bond being redeemed; and (viii) any other descriptive information needed to identify accurately the Bonds being redeemed, as shall be specified by the Trustee. Such notice is also required to state that on the date fixed for redemption there shall become due and payable on each Bond or portion thereof called for redemption the principal amount thereof, together with any premium, and interest accrued to the redemption date and that, from and after such date, interest thereon shall cease to accrue and be payable. Any notice of the optional redemption of Bonds may state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for redemption, of moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds to be so redeemed and that, if such moneys shall not have been so received, said notice shall be of no force or effect and that the Trustee shall not be required to redeem such Bonds.

The actual receipt of the notice of redemption shall not be a condition precedent to such redemption, and neither the failure to receive any such notice nor any defect contained therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the redemption date.

So long as Cede & Co. is the registered owner of the Bonds, any notices of redemption will be given only to it and not to the beneficial owners of the Bonds called for redemption. See “Book-Entry Only System” below.

Parity Bonds

The Indenture permits the issuance of bonds, notes or other similar evidences of indebtedness payable out of the Net Taxes on a parity with the Bonds (“Parity Bonds”). However, Parity Bonds may not be issued for the purpose of funding additional improvements; they may be issued only to effect a partial refunding of Bonds. One of the conditions precedent to the issuance of Parity Bonds is the receipt by the District of a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE —THE BONDS – Conditions for the Issuance of Parity Bonds and Other Indebtedness.”

Book-Entry Only System

The Bonds are to be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York (“DTC”). One fully registered Bond will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity and will be deposited with DTC. So long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall refer to Cede & Co. and shall not refer to the beneficial owners of such Bonds. *The District does not give any assurance that DTC, its participants or others will distribute payments with respect to the Bonds or notices concerning the Bonds to the beneficial owners thereof or that DTC or its participants will otherwise serve and act in the manner described in this Official Statement.* See Appendix D for a further description of DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds and the payment of the Prior Bonds are shown in the following table:

Estimated Sources and Uses of Funds

Estimated Sources of Funds	
Principal Amount of Bonds	\$
Funds Held with Respect to the Prior Bonds	
Less: Net Original Issue Discount	()
Less: Underwriter's Discount	()
Total Sources of Funds	\$
Estimated Uses of Funds	
Escrow Fund	\$
Costs of Issuance Fund	
Reserve Account	
Administrative Expense Account	_____
Total Uses of Funds	\$

DEBT SERVICE SCHEDULE

The following is the debt service schedule for the Bonds assuming that no Bonds are redeemed prior to maturity:

Debt Service Schedule

<i>Year Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Annual Debt Service</i>
2007 ⁽¹⁾	\$	\$	\$
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
Total	\$ _____	\$ _____	\$ _____

⁽¹⁾ Includes interest on the Bonds from their Delivery Date to September 1, 2007.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the District and, except as otherwise provided in the Indenture, the interest on and principal of the Bonds are payable solely from Net Taxes to be levied annually against the Taxable Property in the District. The Indenture defines “Net Taxes” as “Gross Taxes minus amounts set aside to pay Administrative Expenses.” The phrase “Gross Taxes” is defined as “The amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions or any settlement thereof.” “Administrative Expenses,” as defined in the Indenture, include the administrative costs with respect to the calculation and collection of the Special Taxes (including all attorneys’ fees and other costs related thereto), the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning Bonds and the District, and any other costs otherwise incurred by the County staff on behalf on the District in order to carry out the purposes of the District and any obligation of the District under the Indenture. There is no limitation on the amount of money that may be set aside to pay Administrative Expenses; and, therefore, since such moneys are set aside prior to the application of Special Tax revenues to the payment of Annual Debt Service, it is possible that the amount of money set aside to pay Administrative Expenses would leave an amount that is insufficient to pay Annual Debt Service. See “SPECIAL RISK FACTORS — Insufficiency of the Special Tax Revenues.”

NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE COUNTY, THE DISTRICT (OTHER THAN THE POWER OF THE DISTRICT TO LEVY THE SPECIAL TAX) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

Although the Special Tax constitutes a lien on property subject to taxation in the District, it does not constitute a personal indebtedness of the owners of such property. There is no assurance that the owners will be financially able to pay the annual Special Tax or that they will pay it even if financially able to do so.

The District has covenanted in the Indenture that it will receive all Special Taxes in trust for the Owners and that it will cause the deposit of all Special Taxes with the Trustee immediately upon their apportionment to the District. Pursuant to the Indenture, on each date on which the Trustee receives Special Taxes from the District, the Trustee is to deposit such Special Taxes in the Special Tax Fund established pursuant to the Indenture (the “Special Tax Fund”). All money in the Special Tax Fund is to be held by the Trustee in trust under the Indenture and is to be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — CREATION OF FUNDS AND APPLICATION OF PROCEEDS.”

The Special Tax

Pursuant to the Indenture, so long as any Bonds are outstanding (but not after Fiscal Year 2019-20), the District is required to annually levy the Special Tax against all Taxable Property in the District in an amount which will be sufficient, together with other amounts on deposit in the Special

Tax Fund, to pay (i) the Administrative Expenses, (ii) the principal of and interest on the Bonds when due, and (iii) any amounts required to replenish the Reserve Account to the Reserve Requirement (collectively, the “Special Tax Requirement”).

The Rate and Method of Apportionment is to be applied by the District on an annual basis for the purpose of determining the amount of the levy of the Special Tax against each parcel of the Taxable Property. The application of Rate and Method of Apportionment involves a process which is described in Appendix B and summarized below.

Taxable Property. The Rate and Method of Apportionment does not define “Taxable Property.” However, the consistent practice of the District since its formation has been to exempt from Special Taxes all of the property within the boundaries of the District which is owned by a public agency and applied to a development-related public use. Accordingly, property such as public streets has not been treated as if it were Taxable Property. As mentioned above under the caption “INTRODUCTION,” four of the parcels within the District are owned by MWD. MWD acquired such parcels subsequent to the formation of the District and has not devoted them to a public use. Thus, the District has continued to levy and collect the Special Taxes applicable to these parcels, and MWD has been timely in its payment of those Special Taxes. However, because of uncertainties surrounding MWD’s future use of these parcels, for purposes of this Official Statement they have not been included in the description of the Taxable Property within the District. One other parcel has been excluded from the description of Taxable Property contained in this Official Statement because it is considered too small to be developed as a stand alone property. Thus, while the property that is subject to the Special Tax includes the five parcels mentioned above, the term “Taxable Property” as used herein refers to 76 assessor’s parcels with an estimated area (net of past and estimated future street dedications) of approximately 412 acres. Detailed information with respect to the property within the District is set forth under the caption “THE DISTRICT — Properties, Ownership and Values” and in Appendix F.

Maximum Special Tax Rate. The Rate and Method of Apportionment provides that, “the maximum rate or amount of special tax which may be levied on each acre of taxable property in the Community Facilities District for each fiscal year is \$2,400.”

Method of Apportionment of the Annual Special Tax. The Rate and Method of Apportionment provides that the amount of the Special Tax to be levied on each parcel of taxable property in the District (as recognized by the County Assessor of the County of Riverside) for each Fiscal Year shall be determined as follows:

(a) The total amount necessary to pay (i) the principal of and the interest on the Bonds which will be payable during such Fiscal Year and prior to the time of the receipt of sufficient special tax revenues for the payment of such principal and interest in the succeeding Fiscal Year and (ii) the administrative expenses which are estimated to be incurred by and on behalf of the District during the Fiscal Year shall be divided by the total number of acres of taxable property in the District in order to obtain the Special Tax per acre for each parcel of taxable property; and

(b) The Special Tax per acre calculated pursuant to subparagraph (a) above shall be multiplied by the total taxable acreage of the parcel.

For purposes of the foregoing, the Rate and Method of Apportionment provides that “administrative expenses include the costs and expenses estimated to be incurred by and on behalf of the Community Facilities District in each fiscal year for the levy and collection of special taxes, the

payment of principal and interest on the bonds thereof, and registering, exchanging and transferring such bonds, including but not limited to the fees of engineers, special tax consultants, attorneys, paying agents, fiscal agents and trustees, and expenses incurred for the payment of fees for letters of credit and other credit enhancement costs.” In the Indenture, the District has determined that the establishment of the Reserve Account and provisions for its replenishment to an amount equal to the Reserve Requirement is a “credit enhancement cost” within the meaning of the Rate and Method of Apportionment. This determination is consistent with Resolution No. 87-378, adopted by the County Board of Supervisors on December 18, 1987, and with the proposition approved by the qualified electors of the District authorizing the levy of the Special Tax. Thus, the Indenture includes a covenant pursuant to which the District is required to annually levy the Special Tax in an amount which will be sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (i) the Administrative Expenses, (ii) the principal of and interest on the Bonds when due, and (iii) any amounts required to replenish the Reserve Account to the reserve requirement. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – COVENANTS AND WARRANTY – Levy of Special Tax.”

Prepayment of Special Tax. The Rate and Method of Apportionment does not specifically permit the prepayment of the Special Tax, nor does any other document pertaining to the issuance of the Bonds make provision for such prepayment. However, pursuant to Section 53317.5 of the Act, if property which is 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 annual assessment. For this purpose, the present value of the obligation to pay the Special Tax levied to pay principal and interest on any Bonds Outstanding prior to the date of apportionment is to be treated as a fixed lien special assessment. Such special assessments are permitted to be prepaid. Moreover, Section 53317.3 of the Act provides that if property not otherwise exempt from a special tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the special tax shall continue to be levied on such property and shall be enforceable against the acquiring public entity. But said section goes on to provide that, notwithstanding its failure to have done so previously, the legislative body of the local agency that created the community facilities district may specify conditions under which the public agency that acquires the property may prepay and satisfy the obligation to pay the Special Tax. As mentioned above, MWD has acquired four parcels within the District, but the Board of Supervisors, acting as the legislative body of the District, has not specified conditions under which MWD may prepay and satisfy the obligation to pay the Special Tax applicable to said parcels.

Limitations. In general, the Special Tax is required to be levied and collected until the principal of and interest on Bonds have been repaid. However, the Indenture does not require the District to levy the Special Tax subsequent to June 30, 2020. Thus, if the Special Tax levy for Fiscal Year 2019-20 is insufficient, together with other funds then available for such purpose, to pay the final installments of principal of and interest on the Bonds, the only source of funds with which to cure the resulting default would be recoveries of delinquent installments of the Special Tax.

The Special Tax Requirement does not include any component for anticipated Special Tax delinquencies. Thus, although delinquencies in the payment of Special Taxes experienced in one Fiscal Year can be added to the Special Tax levy for the following Fiscal Year to the extent that they cause the balance on deposit in the Reserve Account to be less than the Reserve Requirement, the levy for the following Fiscal Year cannot include any additional amount to reflect the delinquencies expected to occur during that Fiscal Year.

Special Tax Analysis. The Special Tax is exempt from the tax rate limitation of California Constitution Article XIII A pursuant to Section 4 thereof as a “special tax” authorized by a two-thirds vote of the qualified electors as set forth in the Act. Consequently, the District has the power and is obligated by the Indenture to cause the levy of the Special Tax in an amount determined according to the Rate and Method of Apportionment. The Act prohibits the Board of Supervisors from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board of Supervisors determines that the reduction or termination of the Special Tax “would not interfere with the timely retirement” of the outstanding Bonds. California Constitution Article XIII C, which removed certain limitations on the initiative power, provides that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” Although the matter is not free from doubt, the District believes that the exercise by the voters of the initiative power referred to in Article XIII C to reduce the Special Tax is subject to the same restrictions as are applicable to the Board of Supervisors pursuant to the Act. See “SPECIAL RISK FACTORS — Proposition 218.”

Although the Special Tax constitutes a lien on property subject to taxation within the District, it does not constitute a personal indebtedness of the current owner of such property or of its successors. There is no assurance that the owners will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. Subject to the covenant by the District to pursue accelerated foreclosure proceedings under certain circumstances as described under “— Covenant for Foreclosure” below, the Special Tax is generally to be collected in the same manner and at the same time as *ad valorem* property taxes are collected; and it will be 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 Section 54430 of the Act, properties or entities of federal, state or local governments are exempt from the Special Tax except that, under Section 53317.3 of the Act, property not otherwise exempt which is acquired by a public entity through a negotiated transaction, or by gift or demise, remains subject to the Special Tax. It is not clear under the Act whether property acquired by a public entity following a tax sale or foreclosure based upon failure of a non-exempt person or entity to pay property taxes would remain subject to the Special Tax under Section 53317.3 of the Act or would become exempt from the Special Tax under Section 53340 of the Act. Pursuant to Section 53317.5 of the Act, 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 annual assessment. For this purpose, the present value of the obligation to pay the Special Tax to pay principal and interest on any Bonds Outstanding prior to the date of apportionment is to be treated the same as a fixed lien special annual assessment. 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 tax under the Act or to alter the rate or method of apportionment of an existing tax under the Act. *Notwithstanding the language of the Act, property within the District which becomes owned by the federal government may not be subject to the Special Tax.* See “SPECIAL RISK FACTORS — Insufficiency of the Special Tax Revenues” and “— FDIC/Federal Government Interests in Parcels.”

The District is to establish tax rates, within the limits of the Maximum Special Tax for each parcel of Taxable Property as set forth in the Rate and Method of Apportionment to be used to levy and apportion the Special Tax against Taxable Property within the District on an annual basis. The actual amount of the Special Tax that could be levied and collected against property within the District during any future Fiscal Year will depend upon a number of factors, including without

limitation the tax rates imposed pursuant to the Rate and Method of Apportionment (subject to the Maximum Special Tax rates), the number and area of properties which are exempt from the Special Tax and the level of delinquent Special Tax installments.

The following table shows a comparison of the estimated amounts needed to pay Administrative Expenses and Annual Debt Service with the amount of the Special Tax that could be imposed if the Maximum Special Tax were applied to each parcel of Taxable Property, assuming that no additional parcels become exempt from the Special Tax. The amounts shown under the column “Assumed Administrative Expenses” represent the County’s current estimate of Administrative Expenses for Fiscal Year 2006-07 inflated at an annual rate of 4%. However, actual Administrative Expenses may be higher or lower than those shown. *Because money is set aside for the payment of Administrative Expenses prior to the application of Special Taxes to pay Annual Debt Service, there can be no assurance that sufficient Net Taxes will be available to pay Annual Debt Service even if the Special Tax is levied at the Maximum Special Tax rates and even if there are no delinquencies in the payment of the Special Tax.*

Coverage Table – Gross Taxes

<i>Year Ending September 1</i>	<i>Maximum Special Tax⁽¹⁾</i>	<i>Assumed Administrative Expenses⁽²⁾</i>	<i>Annual Debt Service*</i>	<i>Assumed Coverage from Maximum Tax^{(3)*}</i>
2007 ⁽⁴⁾	\$991,152	\$ 75,000	\$521,399	176%
2008	991,152	78,000	522,258	175
2009	991,152	81,120	525,358	173
2010	991,152	84,365	522,378	174
2011	991,152	87,739	523,500	173
2012	991,152	91,249	523,620	172
2013	991,152	94,899	522,708	171
2014	991,152	98,695	525,733	170
2015	991,152	102,643	522,418	170
2016	991,152	106,748	522,975	169
2017	991,152	111,018	522,118	169
2018	991,152	115,459	525,018	167
2019	991,152	120,077	521,393	167
2020	991,152	124,881	521,483	166

* Preliminary, subject to change.

(1) Excludes tax applicable to the four parcels owned by the Metropolitan Water District of Southern California and the parcel deemed by the District to be too small to be developed.

(2) Estimated Administrative Expenses for Fiscal Year 2006-07 inflated at an annual rate of 4%.

(3) The quotient obtained by dividing the remainder of “Maximum Special Tax” minus “Assumed Administrative Expenses” by “Annual Debt Service” and expressed as a percentage. Since Administrative Expenses are paid prior to the payment of Annual Debt Service, any increase in Administrative Expenses above the amounts shown will result in a corresponding decrease in the actual coverage.

(4) “Annual Debt Service” includes interest on the Bonds from their Delivery Date to September 1, 2007.

Source: Stone & Youngberg for Annual Debt Service and Albert A. Webb Associates for the remainder.

As mentioned above, the actual amount of the Special Tax that could be levied and collected against Taxable Property during any future year will depend upon a number of factors. See “SPECIAL RISK FACTORS — Insufficiency of the Special Tax Revenues.” The recent collection history of taxes within the District is discussed below under the caption “— Delinquent Special Taxes.”

In addition to payment of the Special Tax, the property within the District will also be obligated to pay *ad valorem* property taxes levied against such property and special assessments and special taxes levied to pay certain existing and any additional overlapping debt for which the property within the District is or may become obligated. Debt for the repayment of which taxes or assessments are currently being levied includes (in addition to the Bonds) general obligation bonds issued by the Metropolitan Water District of Southern California, by Riverside Community College District and by Perris Union High School District. See “THE DISTRICT — Direct And Overlapping Debt.” The actual amount of those taxes and assessments which may be levied or assessed in the future will vary depending upon a number of factors, including without limitation the assessed valuation of the property within the District at such time and the existence of additional bonded and overlapping debt in the future. Special taxes and special assessments may also be levied to pay for the costs of certain services and/or to maintain certain public improvements.

Delinquent Special Taxes

The total amount of Special Taxes levied by the District in Fiscal Year 2005-06 was \$900,016.46. As of June 15, 2006, all but \$21.28 of that total had been collected. The only parcel in the District whose Special Tax for said Fiscal Year is delinquent is the one which has been excluded from the description of the Taxable Property within the District because it is deemed to be too small to be developed.

The Special Taxes that were levied in Fiscal Year 2004-05 also resulted in a very small delinquent amount. A total of \$1,014,648.42 was levied for that Fiscal Year, and as of May 31, 2006, only \$23.98 was delinquent. The only parcel whose Special Tax for that Fiscal Year is delinquent is the same parcel whose Special Tax for Fiscal Year 2005-06 is delinquent.

The Special Tax Payment History for Fiscal Years 1996-97 through 2003-04 was not as strong as the results of Fiscal Years 2004-05 and 2005-06. The following table summarizes the number of delinquent parcels and the amount and percentage delinquent at the end of each Fiscal Year with the exception of the data for Fiscal Year 2005-06, which is current through May 31, 2006.

SPECIAL TAX PAYMENT HISTORY

<i>Fiscal Year</i>	<i>Special Tax Levied</i>	<i>Delinquent Special Tax at End of Fiscal Year</i>	<i>Number of Delinquent Parcels</i>	<i>Delinquent % of Levy at the End of Fiscal Year</i>
2005/06	\$ 900,016.46	\$ 21.28	1	0.00%
2004/05	1,014,648.42	23.98	1	0.00
2003/04	1,014,648.00	20,314.56	4	2.00
2002/03	1,014,648.00	83,016.48	8	8.18
2001/02	997,278.58	83,016.48	8	8.32
2000/01	993,484.78	83,040.00	8	8.36
1999/00	995,293.72	62,736.00	5	6.30
1998/99	994,653.68	62,736.00	5	6.31
1997/98	986,200.36	62,685.98	5	6.36
1996/97	975,046.54	62,733.82	5	6.43
1995/96	871,276.36	22.80	1	0.00
1994/95	875,592.36	22.56	1	0.00
1993/94	979,714.46	24.96	1	0.00
1992/93	858,651.32	21.68	1	0.00
1991/92	863,592.36	0.00	0	0.00

Source: Albert A. Webb Associates.

In order to provide for the reduction of the delinquent taxes shown in the table above, the District entered into settlement agreements (the "Settlement Agreements") with a number of the persons who purchased parcels with respect to which the District had taken foreclosure proceedings. Pursuant to the Settlement Agreements, those persons are required to make periodic payments of the delinquent amounts and to cure such delinquencies in connection with the issuance of a building permit for the applicable parcel. Two ownership groups of parcels are still making payments pursuant to such payment plans. The first includes Assessor Parcel Nos. 305-180-027-0, 305-180-028-1 and 305-180-029. Only one payment remains in order to bring these parcels current. It is in the amount of \$72,274 and is due no later than March 10, 2007. The second ownership group consists of Assessor Parcel Nos. 305-170-027-9, 305-170-028-0, 305-170-029-1 and 305-170-030-1. Two payments of \$170,000 each are required in order to bring these parcels current. One such payment is due by December 10, 2006 and another by December 10, 2007. See "Other Payments and Credits" below.

Notwithstanding the delinquencies for prior Fiscal Years shown in the table above, the District reports that it has only been required to draw upon the reserve account for the Prior Bonds to pay debt service on the Prior Bonds on two occasions: on September 1, 1998 in the amount of \$169,810.63 and on September 1, 1999 in the amount of \$44,380.66. The reserve account for the Prior Bonds is currently funded in an amount equal to maximum annual debt service on the Prior Bonds.

Reserve Account

In order to further secure the payment of interest and principal on the Bonds, Bond proceeds in an amount equal to the Reserve Requirement will be deposited into the Reserve Account upon the issuance of the Bonds. The Indenture defines "Reserve Requirement" as "... that amount as of any date of calculation equal to the least of (i) 10% of original proceeds of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of Average Annual Debt Service on the then Outstanding Bonds and Parity Bonds."

Subject to the limits on the Maximum Special Tax which may be levied within the District as described in Appendix B, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, together with other amounts on deposit in the Special Tax Fund, in light of other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Except as noted below, all moneys in the Reserve Account will be used and withdrawn solely for the purpose of paying the interest on or principal of the Bonds and any Parity Bonds in the event there is insufficient money in the Bond Redemption Fund available for this purpose.

In connection with a partial redemption of Bonds or Parity Bonds a partial defeasance of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement.

Moneys in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account on September 2 of each year and transferred to the Rebate Fund, the Administrative Expense Account or the Special Tax Fund as provided for in the Indenture.

Covenant for Foreclosure

The practice of the District has been to collect the Special Tax in the same manner as ordinary *ad valorem* property taxes are collected. Except as provided in the special covenant for foreclosure described below and in the Act, the Special Taxes are 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 Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, the 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 Special Tax may be sold at a judicial foreclosure sale. Such judicial foreclosure action is not mandatory. However, the District covenants in the Indenture that it will commence judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,500 (not including interest and penalties thereon) by the October 1st following the close of each Fiscal Year in which the last of such Special Taxes were due. The District further covenants that it will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1st following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year. The District also covenants that it will pursue to completion any such foreclosure proceedings. Notwithstanding the foregoing, if the amount of a Special Tax delinquency on a particular parcel is so small that the cost of foreclosure proceedings will far exceed the amount of such delinquency, the District may delay foreclosure proceedings until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the cost of the foreclosure proceedings.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds pending such sales or the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. No assurance 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 installments of the Special Tax. The Act does not require the County or the District to purchase or otherwise acquire any lot or parcel of property if there is no other purchaser at such sale, but it permits the County to submit a credit bid if it chooses to do so. If the County does purchase such property through a credit bid (which the County has done on occasion in the past), the credit bid is not required to be paid for 24 months.

The Act does specify that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the Outstanding Bonds is obtained. Notwithstanding the foregoing, the District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, cost and attorneys fees related to a special tax delinquency if it is permitted to do so by law; and it may elect to accept less than the statutorily permitted minimum bid if it determines that doing so is in the best interest of the District and is in compliance with State law and if it is indemnified from legal claim from Owners of the Bonds.

In connection with the Prior Bonds, the District caused foreclosure proceedings to be commenced and pursued with respect to four ownership groups. In two cases, the foreclosure sale following judgment initially failed to attract a bid in the minimum permitted amount. However, both groups of properties were ultimately successfully sold, and one such sale included a Settlement

Agreement to cover post-judgment delinquencies. In the other two instances in which foreclosure proceedings were commenced, Settlement Agreements were reached following judgment.

Other Payments and Credits

There are three potential sources of revenue which could result in a reduction in the Special Tax applicable to one or more parcels within the District: payments received pursuant to Settlement Agreements, payments received from Eastern Municipal Water District (the "Water District") and payments received from the Redevelopment Agency of the County of Riverside (the "Agency").

Payments Pursuant to the Settlement Agreements. As discussed above under the caption "— Delinquent Special Taxes," the District has entered into Settlement Agreements with ownership groups to provide for the payment of Special Taxes that became delinquent in previous Fiscal Years. Two Settlement Agreements are still in effect. Under the terms thereof, the District is scheduled to receive a payment in the amount of \$170,000 by December 10, 2006, a payment in the amount of \$72,274 by March 10, 2007 and a payment of \$170,000 by December 10, 2007. Payments are required to be made earlier than indicated if the applicable owner applies for a building permit for the development of its property. Pursuant to the Indenture, the District may apply amounts received by it pursuant to the Settlement Agreements either to the optional redemption of Bonds or to make payments of Annual Debt Service and Administrative Expenses from time to time.

Payments from the Water District. A portion of the proceeds from the Prior Bonds was used to reimburse Community Facilities District No. 88-8 of the County of Riverside ("A" Street-North) ("CFD No. 88-8") for a portion of the cost of a water reservoir, water main and pump station that benefit the properties within both the District and CFD No. 88-8. CFD No. 88-8 is located immediately adjacent to the District at its northerly boundary. The District is a party to a Second Supplemental Agreement to a Joint Financing/Credit Agreement with the Water District, dated as of May 1, 1990 (the "Supplemental Agreement"). The Supplemental Agreement was intended to address the reimbursement to the District for its share of the cost of "oversizing" the three water facilities. The Supplemental Agreement provides that from the connection fees that the Water District would cause any owner of property within either CFD No. 88-8 or the District to pay for connecting to its water system, certain amounts would be refunded to the District to be used to reduce the outstanding bonded indebtedness of the District. A similar agreement was entered into between the Water District and CFD No. 88-8. The Supplemental Agreement states that the maximum amount of reimbursement to be received by the District is \$2,834,280 assuming that there is full residential development of both the District and CFD No. 88-8. Because both CFD No. 88-8 and the District are intended for light industrial and commercial development the number of connections that will be required is significantly reduced, and therefore the potential amount of reimbursement from the District is substantially lower than the maximum amount specified in the Supplemental Agreement. Pursuant to the Indenture, the District is required to use any amounts received from the Water District to pay Annual Debt Service from time to time.

Payments from the Agency. Pursuant to the provisions of the Community Redevelopment Law (California Health and Safety Code Sections 33000, *et seq.*), the Agency has established five project areas. One of those five project areas is known as the "I-215 Corridor Project Area." It encompasses the property included within the District. The Agency has entered into owner participation agreements (the "OPA's") with the owners of various properties in the District and has committed, pursuant thereto, to contribute a stated portion of any tax increment realized from such properties to offset the Special Tax applicable to such properties. These contributions are taken into account prior to the levy of the Special Tax each year, so that the amount levied on properties which

are the subject of such agreements is reduced by the amount of incremental property tax paid by the Agency. As of June 1, 2006, the Agency has agreements such as those described hereinabove in effect with the owners of approximately 57 of the parcels within the District. The last calculation of net tax increment provided approximately \$74,000 in credits for the non-delinquent properties within the District. The amount of the credit may vary each year based on the development, delinquency status and net increment.

Property Values

The extent to which the Special Tax provides security for the Bonds is, at least in part, a function of the value of each parcel of land within the District that is subject to the Special Tax because, in the event that a property owner defaults in the payment of the applicable Special Tax, such property owner will not have any personal liability for the payment of the Special Tax, and the principal remedy available to the District will be to take foreclosure proceedings with respect to the subject property.

As shown in the table included under the caption “THE DISTRICT — Direct and Overlapping Debt,” the estimated assessed value of the property within the District, as shown on the County’s assessment roll for Fiscal Year 2005-06, is approximately \$45,024,000. However, as the result of the requirements of Article XIII A of the California Constitution, a property’s assessed value is not necessarily indicative of its market value.

In order to provide information with respect to the market value of the property within the District, the District engaged Empire Economics, Inc. of Capistrano Beach, California (the “Market Absorption Consultant”) to prepare a market absorption study (the “Market Absorption Study”) of the property within the District and Stephen G. White, MAI, of Fullerton, California (the “Appraiser”) to prepare the Appraisal.

Market Absorption Study. The Market Absorption Consultant was selected by the District and has no material relationships with the County, the District or the owners of land within the District other than the relationship represented by the engagement to prepare the Market Absorption Study and other similar engagements for the County. The Market Absorption Study identifies two groups of parcels of undeveloped property which may be more likely than the others to be developed in the near term. They are:

Nuevo Business Park (identified in the Appraisal as Subject Property Nos. 23 and 24) – approximately 70 acres for which planning approvals are being sought to permit various types of manufacturing and warehouse distribution facilities, which the Market Absorption Study estimates could be absorbed at an average rate of approximately 6.3 acres per year during the 2008-2018 time period; and

Leech Investments (identified as Subject Property No. 21 in the Appraisal) – 10 parcels comprising approximately 47 acres that, according to the Appraisal, are currently planned to be developed with a facility for Eliminator Custom Boats together with a 14 acre boat and RV storage facility and approximately 20 acres of speculative industrial space, which the Market Absorption Study estimates could be absorbed at an average of approximately 3.9 acres per year during the 2008-2019 time period.

The remaining undeveloped properties comprise approximately 207 acres and are, according to the Market Absorption Study, expected to be developed for smaller industrial users. The Market

Absorption Study projects that these parcels will be absorbed at an average of approximately 15.4 acres per year during the 2007-2027 time period. However, based upon the projections set forth in the Market Absorption Study, approximately 126 of these 207 acres (representing over 30% of the area of the Taxable Property) will not have been absorbed while the Bonds are outstanding. (“Absorption” as used in the Market Absorption Study, refers to property improved with a building that is fully constructed and occupied by final users/tenants.) One of the primary reasons for the relatively slow rate of absorption projected in the Market Absorption Study is the competition presented for industrial users by a number of other existing and proposed business park developments in the vicinity of the District. Reference is made to the Market Absorption Study for a complete discussion thereof. A copy of the Market Absorption Study is set forth in Appendix G to this Official Statement.

Appraisal. The Appraiser was selected by the District and has no material relationships with the County, the District or the owners of land within the District other than the relationship represented by the engagement to prepare the Appraisal and other similar engagements for the County. The County instructed the Appraiser to prepare his analysis and report in conformity with County-approved guidelines and the “Appraisal Standards for Land Secured Financings” published in 1994 and revised in 2004 by the California Debt and Investment Advisory Commission. The Appraisal indicates that it is a “limited appraisal,” that is, one:

. . . in which owner contacts have not been made for all of the subject properties; only cursory exterior inspections have been made of the buildings on the Developed Properties; and for which approximate market values have been estimated for the Undeveloped and Developed Properties; thus, the values are subject to refinement if additional information were available on the subject properties and more detailed appraisals were to be completed on each individual property.

A copy of the Appraisal is included as Appendix F to this Official Statement.

The purpose of the Appraisal was to estimate the market value of the property within the District, subject to the lien of the Special Tax. Subject to the assumptions and limiting conditions set forth in the Appraisal, the Appraiser concluded that, as of May 15, 2006, the aggregate market value of the property within the District was \$122,020,000. Reference is made to Appendix F for a complete list and full discussion of the assumptions and limiting conditions of the Appraisal and the methodology employed by the Appraiser in reaching his opinion as to the value of the property.

In addition to the aggregate value set forth above, the Appraisal also reports values for each of the 34 ownerships included within the District. The parcels comprising those ownerships are in various stages of development and have varying entitlements for development for industrial/office/commercial uses. See “THE DISTRICT — Properties, Ownership and Values” and Appendix F — “SUMMARY APPRAISAL REPORT.”

The Appraisal merely indicates the Appraiser’s opinion as to the market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser’s opinion reflects conditions prevailing in the applicable market as of the date of value. The Appraiser’s opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

THE DISTRICT

General Description and Location of the District

The District is located in an unincorporated portion of the County northwest of the City of Perris and west of Interstate 215 between Morgan Street and Nuevo Road. A map showing the general location of the District, a diagram showing its boundaries and aerial photographs of the area appear immediately following the Table of Contents. For purposes of this Official Statement, the Taxable Property within the District consists of 76 assessors parcels with an estimated area (net of estimated future street dedications) of approximately 412 acres. The Appraisal has grouped the parcels into 34 ownerships. Ten of the ownerships, containing approximately 88 net acres, are improved with structures, typically industrial buildings; and 24 of the ownerships, with an aggregate area of approximately 324 acres, are either vacant or have only nominal improvements. Some persons who own improved parcels also own unimproved parcels. The ten improved ownerships are responsible for approximately 20.80% of the annual Special Tax levy.

Access to the properties which comprise the Taxable Property comes from Harvill Avenue, which is a fully improved four-lane street running north and south through most of the District. Harvill Avenue connects with the Cajalco Expressway to the north of the District, and the Cajalco Expressway provides east-west access and an interchange with Interstate 215. A second interchange with Interstate 215 is located on Nuevo Road at the southeast end of the District. Some of the east-west streets that intersect with Harvill Avenue and provide access to portions of the Taxable Property are still unpaved dirt roads to the west of Harvill Avenue. However, all of said streets are two-laned paved roads to the east of Harvill Avenue. All utilities required for the development of property are available in Harvill Avenue and in portions of the east-west streets, but they will need to be extended to portions of the Taxable Property that do not front on Harvill Avenue.

The County's general plan designations for the Taxable Property are Community Center for a total of seven parcels located at the northerly and south-easterly ends of the District, business park for the parcels located west of Harvill Avenue and Light Industrial for the parcels east of Harvill Avenue. Zoning designations include M-SC (Manufacturing-Service Commercial), I-P (Industrial Park), M-H (Manufacturing – Heavy) and C-P-S (Scenic Highway Commercial).

The properties within the District are outside of the 100-year flood plain and are not within an Alquist Priolo Earthquake Fault Zone.

Detailed information with respect to all of the parcels which comprise the Taxable Property is presented in the Appraisal, a copy of which is included as Appendix F to this Official Statement.

Properties, Ownership and Values

The parcels which comprise the Taxable Property consist of 76 assessor's parcels in 34 different ownership groupings. Ten of the ownerships include buildings, but the remaining 24 ownerships are unimproved. Some of the persons who own some of the ten improved parcels also own unimproved parcels. The following table presents information with respect to the properties within the District.

INFORMATION CONCERNING THE PARCELS COMPRISING THE DISTRICT

<i>APNs</i>	<i>Acres</i>	<i>Owner</i>	<i>Development Status</i>	<i>Maximum Special Tax</i>	<i>Percentage of Total Maximum Tax⁽¹⁾</i>	<i>Share of Bonds*</i>	<i>Appraised Value</i>	<i>Ratio of Value to Share of Bonds*</i>
317-160-042	3.86	Joey M. & Helen I. Toth	Undeveloped	\$ 9,264	0.9%	\$ 48,093	\$1,110,000	23.08:1
317-160-037	4.78	Jui-Long Lee, et al	Undeveloped	11,472	1.2	59,556	1,170,000	19.65:1
317-160-038	4.41	C.E. Leasing, LLC	Undeveloped	10,584	1.1	54,946	1,120,000	20.38:1
317-170-031	11.26	McAnally Family Farms, Inc.	Undeveloped	27,024	2.7	140,292	2,500,000	17.82:1
317-170-020	9.01	McAnally Enterprises	Undeveloped	21,624	2.2	112,258	2,200,000	19.60:1
317-170-025, 026, 027 & 028	9.59	Yeager Brothers	Undeveloped	23,016	2.3	119,485	2,240,000	18.75:1
317-170-024	1.81	Nelson Development, LLC	Undeveloped	4,344	0.4	22,551	500,000	22.17:1
317-230-036	8.76	William T. Nash/Glenda J. Johnson	Undeveloped	21,024	2.1	109,144	2,050,000	18.78:1
317-230-038	11.90	Growth Management Company, LLC	Undeveloped	28,560	2.9	148,266	2,650,000	17.87:1
317-230-044, 046 & 047	10.72	Eagle Pacific Industries, Inc.	Undeveloped	25,728	2.6	133,564	2,620,000	19.62:1
317-240-045	3.81	ATI Services, LLC	Undeveloped	9,144	0.9	47,470	760,000	16.01:1
317-240-028, 029, 039 & 041	7.60	Dan & Debra Samarin	Undeveloped	18,240	1.8	94,691	1,770,000	18.69:1
317-240-008, 013, 015, 032 & 035	19.19	Oakmont Perris Harvil Street, LLC	Undeveloped	46,056	4.7	239,094	4,490,000	18.78:1
317-260-007	9.36	Placentia Industrial 10 Limited, et al	Undeveloped	22,464	2.3	116,619	2,090,000	17.92:1
317-260-033	9.53	Indacochea, Pedro M.	Undeveloped	22,872	2.3	118,737	2,120,000	17.85:1
317-260-027, 030, 031 & 032	17.10	CLA-VAL Company	Undeveloped	41,040	4.2	213,054	3,800,000	17.84:1
305-060-029;								
317-270-006, 010, 015 & 016	20.49	McShane Corporation	Undeveloped	49,176	5.0	255,291	4,120,000	16.14:1
317-270-017	6.74	William R. Cramer	Undeveloped	16,176	1.6	83,976	1,570,000	18.70:1
317-270-013	6.99	William R. Cramer, Jr. & Janet R. Cramer	Undeveloped	16,776	1.7	87,091	1,560,000	17.91:1
305-100-048, 049, 050, 051, 056, 057, 058 & 059	21.88	HP Gardena Investors, LLC	Undeveloped	52,512	5.3	272,610	5,160,000	18.93:1
305-170-004, 005, 006, 007, 008, 026, 027, 028, 029 & 030	47.13	Robert Leach Investments, LLC/Guthrie-Leach, LLC	Undeveloped	113,112	11.4	587,208	10,100,000	17.20:1
305-180-027, 028 & 029	8.46	Moon W. & Choon J. Kang	Undeveloped	20,304	2.1	105,406	1,880,000	17.84:1
305-180-036	16.19	SCSGF Kearny Nuevo, LLC	Undeveloped	38,856	3.9	201,716	4,300,000	21.32:1
305-180-034 & 035; 305-270-061	53.34	Nuevo & Hwy 215, LLC, et al	Undeveloped	128,016	13.0	664,580	11,900,000	17.91:1
314-160-043	2.02	Joey M. & Helen I. Toth	4,000 sq. foot office/industrial building and storage yard	4,848	0.5	25,168	750,000	29.80:1
317-160-021	6.13	Robert V. Lange	3,000 sq. feet of mobile office units and 3 covered and partially enclosed buildings of 3,000-4,000 sq. feet each	14,712	1.5	76,376	1,360,000	17.81:1
317-170-023	4.26	McAnally Enterprises	Feed Mill operation and four silos	10,224	1.0	53,077	950,000	17.90:1

<i>APNs</i>	<i>Acres</i>	<i>Owner</i>	<i>Development Status</i>	<i>Maximum Special Tax</i>	<i>Percentage of Total Maximum Tax⁽¹⁾</i>	<i>Share of Bonds*</i>	<i>Appraised Value</i>	<i>Ratio of Value to Share of Bonds*</i>
317-230-042, 048	9.56	PWE (Multi) QRS 14-85 Inc.	Two concrete tilt-up industrial buildings totaling approx. 66,000 sq. feet and outdoor storage	22,944	2.3	119,111	6,600,000	55.41:1
317-240-043	3.72	Leroy M. & Theresa J. Ostby	48,900 sq. foot concrete tilt-up industrial building	8,928	0.9	46,349	4,000,000	86.30:1
317-240-044	3.34	A&M Industries	46,000 sq. foot concrete tilt-up industrial building	8,016	0.8	41,614	3,800,000	91.32:1
305-060-015	9.00	CLA-VAL Company	2 concrete tilt-up industrial buildings and a metal industrial building with a total of 75,000 sq. ft.	21,600	2.2	112,134	6,600,000	58.86:1
305-090-047	8.67	Star Milling Company	Animal feed mill	20,808	2.1	108,022	1,930,000	17.87:1
305-090-048	14.50	Earthshine	Two large metal industrial buildings with a total of approx. 100,000 sq. feet and outdoor storage area	34,800	3.5	180,660	8,400,000	46.50:1
305-100-034, 052 & 053	<u>26.63</u>	Salvation Army	Two large industrial buildings totaling approximately 194,000 sq. feet	<u>63,912</u>	<u>6.5</u>	<u>331,792</u>	<u>13,850,000</u>	<u>41.74:1</u>
TOTALS	411.74			\$988,176	100.0%	\$5,130,000	\$122,020,000	23.78:1

* Preliminary, subject to change.

⁽¹⁾ Computed without including four parcels owned by the Metropolitan Water District of Southern California and one parcel deemed too small to be developed.
Source: Appraiser for APNs, Acres, Owner, Development Status and Appraised Value; Albert A. Webb Associates for the remainder.

The following table identifies the ten property owners which are responsible for the largest payments of Special Tax, based upon applicable Maximum Special Tax. These ten ownerships are responsible for approximately 62.9% of the total amount of such Special Taxes.

Top Ten Taxpayers

<i>Owner</i>	<i>Acres</i>	<i>Maximum Special Tax</i>	<i>Percentage of Maximum Special Tax</i>	<i>Appraised Value</i>	<i>Share of Bonds*</i>	<i>Ratio of Value to Share of Bonds*</i>
Nuevo & Hwy 215	53.34	\$ 128,016	13.0%	\$ 11,900,000	\$ 664,580	17.91:1
Robert Leach Investments, LLC/Guthrie-Leach, LLC	47.13	113,112	11.4	10,100,000	587,208	17.20:1
Salvation Army	26.63	63,912	6.5	13,850,000	331,792	41.74:1
CLA-VAL Company	26.10	62,640	6.4	10,400,000	325,188	31.98:1
HP Gardena Investors, LLC	21.88	52,512	5.3	5,160,000	272,610	18.93:1
McShane Corporation	20.49	49,176	5.0	4,120,000	255,291	16.14:1
Oakmont Perris Harvil Street, LLC	19.19	46,056	4.7	4,490,000	239,094	18.78:1
SCSGF Kearny Nuevo, LLC	16.19	38,856	3.9	4,300,000	201,716	21.32:1
Earthshine	14.50	34,800	3.5	8,400,000	180,660	46.50:1
McNally Enterprises	<u>13.27</u>	<u>31,848</u>	<u>3.2</u>	<u>3,150,000</u>	<u>165,335</u>	<u>16.02:1</u>
Sub Total	258.72	\$ 620,928	62.9%	\$ 75,870,000	\$3,223,474	23.54:1
All Others	<u>153.02</u>	<u>367,248</u>	<u>37.1</u>	<u>46,150,000</u>	<u>1,906,526</u>	<u>24.21:1</u>
Total	411.74	\$ 988,176	100.0%	\$122,020,000	\$5,130,000	23.79:1

* Preliminary, subject to change.

(1) Computed without including four parcels owned by the Metropolitan Water District of Southern California and one parcel deemed too small to be developed.

Source: Appraiser for Owner, Acres and Appraised Value; Albert A. Webb Associates for the remainder.

Direct and Overlapping Debt

The following table sets forth the existing authorized indebtedness which is payable from taxes and assessments that may be levied on the Taxable Property. It was prepared by Albert A. Webb Associates. Percentages of debt calculations included in the table were made based on all of the parcels within the District, including those five that have been excluded for other purposes. This approach slightly increases the amount of overlapping debt that would otherwise be shown.

ASSESSED VALUE \$45,023,594

SECURED PROPERTY TAX ROLL

Description of Tax Bill	Type	Total		% Applicable	CFD Parcels	Levy Amount
		Parcels Levied	Total Levy			
Community Facilities District No. 87-1	CFD	81	900,016	100.000%	81	\$ 900,016
MWD Standby East	WTR	226,354	3,401,915	0.085	77	2,901
EMWD Standby – Combined Charge	WTR	212,481	4,505,616	0.162	76	7,294
Riverside Community College	GO	513,330	19,151,876	0.033	68	6,293
Metropolitan Water East 1301999	GO	430,514	5,247,279	0.039	76	2,050
Perris Union High School	GO	51,633	1,843,416	0.057	8	1,049
CSA #89	CSA	311	16,079	0.641	2	103
L&LM District 89-1-C Zone 3	SPC	3	555	100.000	3	555
Riverside County Hazard Reduction	SPC	3,707	1,349,187	0.277	13	3,738
Flood Control Stormwater/Cleanwater	SPC	287,154	1,982,917	0.168	47	3,327
General Purpose	1%	786,893	1,518,149,874	0.030	81	<u>450,236</u>
<i>Fiscal Year 2005-2006 Total Property Tax Liability</i>						<u>\$1,377,562</u>

TOTAL PROPERTY TAX AS A PERCENTAGE OF 2005-06 ASSESSED VALUATION 3.06%

LAND SECURED BOND INDEBTEDNESS

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	CFD Parcels	Amount of Debt
County of Riverside CFD 87-1	CFD	\$ 8,900,000	\$ 6,770,000	100.000%	81	<u>\$ 6,770,000</u>
TOTAL OUTSTANDING LAND SECURED BONDED INDEBTEDNESS						\$ 6,770,000

GENERAL OBLIGATION BOND INDEBTEDNESS

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	CFD Parcels	Amount of Debt
Riverside Community College	GO	\$ 65,000,000	\$ 58,386,109	0.091%	68	\$ 52,880
Metropolitan Water District	GO	850,000,000	418,190,000	0.003	76	12,739
Perris Union High School	GO	65,000,000	65,000,000	0.536	8	<u>348,350</u>
Total General Obligation Bonded Debt⁽¹⁾						\$ 413,969

Authorized and Unissued Direct and Overlapping Indebtedness	Type	Authorized	Unissued	% Applicable	CFD Parcels	Amount of Debt
Riverside Community College	GO	\$350,000,000	\$285,000,000	0.091%	68	\$ 258,122
Metropolitan Water District	GO	850,000,000	0	0.003	76	0
Perris Union High School	GO	65,000,000	0	0.536	8	<u>0</u>
Total Unissued General Obligation Bonds⁽¹⁾						\$ 258,122

TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS **\$ 672,090**

TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT \$ 7,183,969*

ASSESSED VALUE TO ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT 6.27:1

TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT \$ 7,442,090*

ASSESSED VALUE TO ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT 6.05:1

Source: Albert A. Webb Associates, Inc.

SPECIAL RISK FACTORS

The purchase of the Bonds involves a high degree of investment risk, and the Bonds are not appropriate investments for many types of investors. The following information supplements other sections of this Official Statement in order to highlight certain risks associated with the Bonds. The

order in which the risks are presented is not intended to reflect either the likelihood that a particular event will occur or the relative significance of such an event.

Insufficiency of the Special Tax Revenues

As discussed below, the Special Tax revenues may not produce revenues sufficient to pay the debt service on the Bonds as a result of the nonpayment of the Special Taxes levied and/or because the amount levied, even if the levy is at the maximum rate permitted, produces less Net Taxes than are required to pay debt service. The latter situation could result from decreases in Gross Taxes resulting from properties becoming exempt from the Special Tax, increases in the amount required to pay Administrative Expenses and other similar circumstances.

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. While the District has established a Reserve Account to pay debt service on the Bonds to the extent other funds are not available and has covenanted to maintain in the Reserve Account an amount equal to the Reserve Requirement, that covenant is subject to the limitation that the District may not levy the Special Tax in any Fiscal Year at a rate in excess of the Maximum Special Tax and to the prior claim on Special Tax revenues that has been given to Administrative Expenses. Thus, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Account to the Reserve Requirement. If such defaults were to continue in successive years, the Reserve Account could be depleted and another default on the Bonds could occur.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against that property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts; and they may not apply to property acquired by the federal government. (See “FDIC/Federal Government Interests in Parcels” below.) If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity, such as the federal government, then subject to the limitation of the Maximum Special Tax, the Special Tax will be reallocated to the remaining taxable parcels within the District in subsequent Fiscal Years. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon their willingness and/or ability to pay the Special Tax. Moreover, if a substantial portion of additional land within the District became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

Even if no additional properties become exempt from the Special Tax, and even if all of the Special Taxes levied in a Fiscal Year are paid in a timely manner, it is still possible that the resulting Net Revenues might be insufficient to pay Annual Debt Service. For example, if the amount of Gross Taxes that is set aside to pay Administrative Expenses is larger than the difference between the Gross Taxes and Annual Debt Service, by definition the Net Taxes will be less than the amount required to pay Annual Debt Service. Since there is no limit on the amount that can be set aside to pay Administrative Expenses, the foregoing circumstance could occur as a result of increases in the

amount of the Administrative Expenses over and above the amount of Administrative Expenses currently expected to be incurred.

The District has covenanted that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds (if the Reserve Account has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in the District, subject to the limits in the Rate and Method of Apportionment, to provide an amount required to pay Administrative Expenses and Annual Debt Service, and the amount, if any, necessary to replenish the Reserve Account to an amount equal to the Reserve Requirement. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District will be at all times sufficient to pay the amounts required to be paid by the Supplement to Resolution, even if the Special Tax is levied at the Maximum Special Tax rates. See “— Enforcement Delays - Bankruptcy.”

No assurance 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 installments of the Special Tax. The Act does not require the County or the District to purchase or otherwise acquire any lot or parcel of property to be sold at foreclosure if there is no other purchaser at such sale. However, the Act does permit the County to submit a credit bid for the property: and, if the County were to do so and were to become the purchaser of the property, it is required by the Act to pay the amount of its credit bid within 24 months of the date of the foreclosure sale.

The Act specifies that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the Outstanding Bonds is obtained.

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such foreclosure sales has been repealed. However, a period of 20 days must elapse after the date on which the notice of levy of the interest in real property was served on the judgment debtor before the sale of such lot or parcel can be made. Furthermore, if the purchaser at the sale is the judgment creditor (e.g., the District), an action may be commenced by the delinquent property owner within 90 days after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation, which repeals the one year redemption period, has not been tested and there can be no assurance that, if tested, such legislation will be upheld. (Section 701.680 of the Code of Civil Procedure of the State.)

Uncertainties in Land Development – General

As of May 15, 2006, only 13 of the parcels within the District had been improved with buildings considered by the Appraiser to be meaningful improvements. Since land without completed buildings is generally less valuable than land containing completed buildings, the vacant land will provide less security for the Bonds should it be necessary for the District to commence enforcement proceedings with respect to such land as a result of the non-payment of the Special

Taxes. In short, the successful development of the land within the District is important to the ultimate security for, and the payment of principal of and interest on, the Bonds.

There are many reasons why a project may not be developed in the manner and within the time frame and budget originally planned. For example, a project might be adversely affected by opposition to it, unfavorable economic conditions, an inability of the landowner to obtain financing, fluctuations in the local real estate market, fluctuations in interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership and development of real estate, and the appearance of previously unknown environmental considerations or material changes in known environmental considerations. Some of these factors are discussed below as individual risk factors.

Factors that may inhibit the further development of the property within the District include the lack of common ownership and the resulting absence of a common plan for the construction of additional infrastructure and a common marketing plan as well as competition to such development from other planned industrial/commercial projects in the general area of the District, many of which enjoy the advantage of common ownership.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or that future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within the District with the effect of negatively impacting the ability of the owner or owners of such land to complete the development of such land if they should desire to develop it. Potential purchasers of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within the District to decrease.

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

Challenges to existing planning and zoning measures could also adversely impact development. For example, if the comprehensive general plan of a county or a city is successfully challenged, a court may suspend its authority to issue a variety of land use, zoning, subdivision and building approvals. The County's Comprehensive General Plan is currently being challenged in two actions in Riverside County Superior Court. See "CONCLUDING INFORMATION — Litigation."

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

Geologic, Topographic and Climatic Conditions

The market value of the property within the District can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the parcels and the continued utility of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements) and climatic conditions (such as droughts, fire hazard and floods).

Building codes require that some of these factors be taken into account in the design of private improvements of the parcels, and the County has adopted the Uniform Building Code standards with regard to seismic standards. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of establishment between the present costs of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the applicable governmental agency has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, the District expects 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 actual value of the parcels may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Hazardous Substances

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund 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 in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition because the prospective purchaser of such a parcel will, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of such a parcel is. The Appraisal does not take into account the possible liability of the owner (or operator) for the remedy of any hazardous substance affecting any such parcel.

While the District is unaware of the presence of any hazardous substances on any of the properties within the District, it is possible that such substance liabilities may be found in the future

either as the result of the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened or the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of significantly reducing the value of a parcel.

Multiple Species Habitat Conservation Issues

On June 17, 2003, the Board of Supervisors approved the Western Riverside County Multiple Species Habitat Conservation Plan (the “MSHCP”) which encompasses the western portion of the County of Riverside and fourteen incorporated cities within the boundaries of the MSHCP. The MSHCP has also been approved by the California Department of Fish and Game (“CDFG”) and the U.S. Fish and Wildlife Service (“USFWS”) and once fully implemented will result in the creation of a habitat reserve system covering 146 plant and animal species some of which have been listed as “endangered” or “threatened.”

The MSHCP is intended to assist land owners and participating public entities in addressing the need to mitigate public and private development projects that may have direct or indirect impacts to listed species. Additionally, the MSHCP provides an expedited review process for obtaining incidental take authorization pursuant to the state and federal Endangered Species Acts allowing take of the species covered by the MSHCP.

The MSHCP establishes a “Criteria Area” comprised of cells of which 153,000 acres of privately owned property will be conserved for the benefit of the 146 covered species. It is anticipated that approximately 43,000 of these acres will be conserved through the development review process and that the remainder will be purchased through acquisition. A development mitigation fee is currently imposed on new development in order to assist in the purchase of this property. If property proposed for development is not located within the “Criteria Area,” the MSHCP, depending on the location of the property, may require specified species surveys to be conducted or that certain habitat types be avoided.

Fourteen of the parcels within the District are within a “Criteria Area” of the MSHCP and require an additional review prior to development. Seven of these fourteen parcels have been reviewed and cleared by the Riverside Conservation Agency (the “RCA”), but prior to any development thereon being permitted it will be necessary for the property owners to provide a study to verify that there are no California burrowing owls located on site. The remaining seven parcels have not yet been submitted for a formal review pursuant to the MSHCP. However, the District has been informed by the staff of the RCA that those parcels would receive the same type of clearance as the first seven, including the requirement to be checked for the presence of the California burrowing owl prior to development activity thereon.

Each proposed development project within the boundaries of the MSHCP must be reviewed to determine project consistency with the requirements of the MSHCP. However, the MSHCP provides a coordinated, efficient and quicker process for mitigating project impacts as well as for obtaining incidental take authorization pursuant to the state and federal Endangered Species Acts. The MSHCP is being challenged in litigation to which the County is a party. See “CONCLUDING INFORMATION — Litigation.”

Enforcement Delays - Bankruptcy

In the event of a delinquency in the payment of the Special Taxes, the District, under certain circumstances, is required to commence enforcement proceedings as described under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Covenant for Foreclosure.” However, prosecution of such proceedings could be delayed due to crowded local court calendars, dilatory legal tactics, or bankruptcy. It is also possible that the District will be unable to realize proceeds in an amount sufficient to pay the applicable delinquencies. Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a property owner could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the Bonds. The various legal opinions delivered in connection with the issuance of the Bonds, including Bond Counsel’s approving legal opinion, are qualified as to the enforceability of the Bonds and the Supplement to Resolution by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public corporations such as the District.

FDIC/Federal Government Interests in Parcels

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the “FDIC”) has or obtains an interest. Specifically, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appeal. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an

interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

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

Direct and Overlapping Indebtedness

The ability of an owner of property within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon taxable parcels. See "THE DISTRICT — Direct and Overlapping Debt" herein. In addition, the County and other public agencies whose boundaries overlap those of the District could impose additional taxes or assessment liens on the property within the District in order to finance public improvements or services to be located or provided inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes may be on a parity with the lien of the Special Taxes.

The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of property owners to pay the Special Taxes and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

Reductions in Property Values

The value of the land within the District is an important factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of the Special Taxes, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes.

No Acceleration Provision

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

Ballot Initiatives and Legislation

Articles XIII A, XIII B, XIII C, and XIII D of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to the State's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters, and legislation could be enacted by the State Legislature, that might place limitations on the ability of the State, the County, or other local agencies to increase revenues or appropriations or to determine the activities that will be permitted to be funded or place limitations on the ability of the landowners to complete the development of the vacant land within the District.

Proposition 218

An initiative measure entitled "The Right to Vote on Taxes Act" ("Proposition 218") was approved by the voters at the November 5, 1996 statewide general election. Among other things,

Proposition 218 added a new Article XIII C to the California Constitution which 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. While Proposition 218 has not yet been interpreted by the courts and the matter is not completely free from doubt, it is not likely that Proposition 218 has conferred on the voters the power to effect a repeal or reduction of the Special Tax if the result thereof would be to impair the security of the Bonds.

It may be possible, however, for voters or the Board of Supervisors, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of the Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the sum of estimated Administrative Expenses plus 120% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds as of the date of such proposed reduction, (ii) such changes do not reduce the maximum Special Taxes that may be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than the sum of estimated Administrative Expenses plus 120% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds as of the date of such proposed reduction and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses in connection with the foregoing tests, the Independent Financial Consultants shall compute the Administrative Expenses for the then-current Fiscal Year and escalate that amount by 4% in each subsequent Fiscal Year.

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

Loss of Tax Exemption

As discussed under the heading “CONCLUDING INFORMATION — Tax Matters,” interest on the Bonds could cease to be excluded from gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District. In addition, it is possible that future changes in applicable federal tax laws could cause interest on the Bonds to be included in gross income for federal income taxation or could otherwise reduce the equivalent taxable yield of such interest and thereby reduce the value of the Bonds.

No Ratings - Limited Secondary Market

The District has not applied to have the Bonds rated by any nationally recognized bond rating company, and it does not expect to do so in the future.

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bond owners 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 a credit rating for the 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.

CONCLUDING INFORMATION

Certain Legal Matters

Certain legal matters incident to the issuance of the Bonds are subject to the approving legal opinion of McFarlin & Anderson, LLP, Lake Forest, California (“Bond Counsel”). A copy of the proposed form of opinion of Bond Counsel is set forth in Exhibit E hereto. The opinion of Bond Counsel will be qualified as to the enforceability of certain of the proceedings by limitations imposed by bankruptcy, insolvency, moratoria and other similar laws affecting creditors’ rights, heretofore or hereafter enacted, and by the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the District by the County Counsel and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

Tax Matters

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and agreements, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternate minimum taxes. However, Bond Counsel observes that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The

District has made representations related to certain of these requirements and has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Inaccuracy of the representations or failure to comply with the covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of the representations and compliance with the covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or event occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Should interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such event and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

To the extent the issue price of any maturity of the Bond is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 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 Bond that is excluded from gross income for federal income tax and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 circumstance.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than McFarlin & Anderson LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership and disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the owner of the Bond or such owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations which present similar tax issues, will not affect the market price for the Bonds.

IRS Audit of Tax-Exempt Bond Issues

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

Professionals Involved in the Financing

McFarlin & Anderson LLP, Lake Forest, California, is acting as Bond Counsel for the District. Fieldman Rolapp & Associates, Irvine, California serves as Financial Advisor to the County and the District. The Appraisal was prepared by Stephen G. White, MAI, Fullerton, California; and the Market Absorption Study was prepared by Empire Economics, Capistrano Beach, California. Grant Thornton, LLP, Minneapolis, Minnesota, will be verifying the accuracy of certain calculations associated with the refunding of the Prior Bonds. U.S. Bank National Association, Los Angeles, California, will serve as the Trustee under the Indenture. The Special Tax Consultant is Albert A. Webb, Associates, Riverside, California. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is serving as counsel to the Underwriter. Stradling Yocca Carlson & Rauth, a Professional Corporation has represented the County in matters unrelated to the issuance of the Bonds. The fees of all of the foregoing, with the exception of the Special Tax Consultant, the Appraiser, the Market Absorption Consultant and the Verification Agent, are contingent, in whole or in part, upon the issuance of the Bonds.

Continuing Disclosure

The District will execute a continuing disclosure agreement for the benefit of the Owners and Beneficial Owners of the Bonds and will agree, pursuant thereto, to provide certain financial and operating data relating to the District (the "Annual Report") and to provide notices of the occurrence of certain enumerated events (the "Listed Events"). The Annual Report is required to be filed by U.S. Bank National Association, as the Dissemination Agent with each Nationally Recognized

Municipal Securities Information Repository. Notices of Listed Events are required to be filed by the Dissemination Agent with the Municipal Securities Rulemaking Board.

The specific nature of the information to be included in the Annual Reports and the notices of Listed Events is set forth in Appendix C — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” This agreement will be entered into in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The Annual Reports are to be filed by the District no later than nine months after the end of the District’s Fiscal Year, which is currently June 30. The first Annual Report is due April 1, 2007. The District has not previously entered into an undertaking pursuant to the Rule. However, the County, (as the administrator of several special districts or agencies either formed by the County or of which the County is a member) has on two occasions during the past five years failed to meet the continuing disclosure requirement under the Rule on a timely basis. In one instance, the applicable dissemination agent failed to file the annual report for Community Facilities District No. 89-1 which the County had timely provided to the dissemination agent. The annual report was subsequently filed in February, 2003, promptly after the County became aware of the dissemination agent’s failure to make the filing. The second incident involved the Riverside County Public Financing Authority’s Rancho Villages Project/AD No. 159 Series 2003 (Junior Lien Bonds). Although other financings relating to Assessment District No. 159 have an annual report date of April 1, the annual report date for the 2003 financing had a February 1 date. The required annual report for all three issues (1999, 2000 and 2003) was provided to the dissemination agent on March 17, 2004.

It should be noted that the District is required to file certain financial statements with the Annual Reports. This requirement has been included in the agreement solely to satisfy the provisions of the Rule. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the District other than as described hereinabove. It should also be noted that the Listed Events which the District has agreed to report include three items which have absolutely no application whatsoever to the Bonds. These items have been included in the list solely to satisfy the requirements of the Rule. Thus, any implication from the inclusion of these items in the list to the contrary notwithstanding, there are no credit enhancements applicable to the Bonds, there are no credit or liquidity providers with respect to the Bonds, and the Bonds have not been assigned a rating.

Litigation

At the time of delivery of and payment for the Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or regulatory agency, public board or body pending or threatened against the County or the District affecting their existence, or the titles of their respective officers, or seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the agreement entered into between the County and the Underwriter for the sale of the Bonds (the “Bond Purchase Agreement”), or any other applicable agreements or any action of the County or the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the County or the District or their authority with respect to the Bonds or any action of the County or the District contemplated by any of said documents, nor, to the knowledge of the District, is there any basis therefor.

Notwithstanding the foregoing, the County has been named and served in two pending lawsuits filed in Riverside County Superior Court challenging the County's Comprehensive General Plan approved on October 7, 2003. The lawsuits allege that the County did not comply with the California Environmental Quality Act ("CEQA") and/or violated various planning and zoning statutes in adopting the Comprehensive General Plan. These cases are (i) *Endangered Habitats League v. County of Riverside* (RIC 402952) and (ii) *Fountainhead Country Club, LLC, et al. v. County of Riverside, et al.* (RIC 405631). If either of these actions were to result in a judgment invalidating the Comprehensive General Plan, the court could suspend the power of the County to issue building permits, to grant zoning changes and/or to approve subdivision maps thereby potentially adversely affecting the further development of the property within the District.

(i) *Endangered Habitats League v. County of Riverside* (RIC 402952) was filed November 5, 2003. Petitioners seek a Writ of Mandate alleging the failure of the County to comply with CEQA in adopting the County's Comprehensive General Plan. Specifically, Petitioners allege that the county failed to consider the individual and cumulative traffic, air quality noise, public services, and biological impacts and to provide for feasible mitigation of each in preparing the Environmental Impact Report. Petitioners seek to have the approval of the Comprehensive General Plan set aside and to require the County to comply with the provisions of CEQA. Petitioner's principal concern is with the alleged inadequacy of the principal transportation arterials. The County has been in settlement negotiations with Petitioners. No trial date has been set by the court.

(ii) *Fountainhead Country Club, LLC, et al. v. County of Riverside, et al.* (RIC 405631) was filed on January 5, 2004. Petitioners filed a Petition for Writ of Mandate and a Complaint for Preliminary and Permanent Injunctive Relief, Declaratory Relief, and Damages whereby Petitioners seek to have the Comprehensive General Plan set aside and have the treatment of certain property owned by Petitioner Fountainhead Country Club, LLC, declared a taking by inverse condemnation. Several years ago the County approved a specific plan for the property currently owned by Petitioner Fountainhead Country Club, LLC in an unincorporated area of the County south/southwest of the City of Temecula. The proposed project contemplated residential development around an eighteen-hole golf course. The County rescinded the specific plan and redesignated Petitioner's property. The County has been in settlement negotiations with Petitioners. No trial date has been set by the court.

As indicated above, if the settlement negotiations are not successful with respect to these lawsuits and if either petitioner prevails, the court must fashion its ruling to conform with Section 65755 of the California Government Code. This Section allows for the court to, among other things, suspend the authority of the County to issue building permits and all other related permits, suspend the authority of the County to grant any and all categories of zoning changes, variances, or both, and suspend the authority of the County to grant subdivision map approval for any and all categories of subdivision map approvals. However, this Section also provides the court with discretion to exclude any approved specific plan or tract map from the terms of its ruling.

No Ratings

The District has not made, and does not contemplate making, application to any rating organization for a rating on the Bonds.

Underwriting

The Bonds are being purchased by Stone & Youngberg LLC (the “Underwriter”). The Underwriter has agreed to purchase the Bonds for a price of \$_____ (representing \$_____ aggregate principal amount of the Bonds, less original issue discount of \$_____ and less Underwriter’s discount of \$_____). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any of them are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter may change the initial public offering prices set forth on the cover page and may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof.

Verification of Mathematical Computations

Upon delivery of the Bonds, Grant Thornton LLP will deliver a report verifying the mathematical accuracy of certain computations concerning (i) the adequacy of the maturing principal amounts of and interest on the United States Treasury and Local Government Series Securities being deposited in the Escrow Fund to pay on September 1, 2006 the redemption price of the Prior Bonds, as described herein, and (ii) the yield on the Bonds and on such United States Treasury and Local Government Series Securities considered by Bond Counsel in its determination that the interest received by owners of the Bonds is excluded from gross income for federal income tax purposes.

Miscellaneous

All of the preceding summaries of the Indenture, other applicable legislation, agreements and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Executive Office of the County for further information in connection therewith.

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

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

The District will furnish a certificate dated the date of delivery of the Bonds, from an appropriate officer of the County, to the effect that to the best of such officer’s knowledge and belief, and after reasonable investigation, (i) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Bonds, the Indenture, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the District has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Bond Purchase Agreement and the Indenture at and prior to the date of issuance of the Bonds.

The execution and delivery of the Official Statement by the District have been duly authorized by the Board of Supervisors of the County of Riverside on behalf of the District.

COMMUNITY FACILITIES DISTRICT NO. 87-1 OF
THE COUNTY OF RIVERSIDE

By _____

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following are brief summaries of certain provisions of the Indenture with respect to the Bonds not otherwise summarized in the text of this Official Statement under the headings “THE BONDS” and “SECURITY FOR THE BONDS.” These summaries do not purport to be comprehensive or definitive and are subject to all the terms and provisions of the respective documents in their entirety to which reference is made for the detailed provisions thereof.

DEFINITIONS

“**1990 Administrative Expense Fund**” means the account by that name created and established pursuant to the 1990 Indenture.

“**1990 Bonds**” means the Community Facilities District No. 87-1 of the County of Riverside Special Tax Bonds issued on November 20, 1990 in the aggregate principal amount of \$8,900,000 of which \$6,770,000 aggregate principal amount are outstanding and being defeased with among other moneys, a portion of the proceeds of the Bonds.

“**1990 Earnings Fund**” means the fund by that name created and established pursuant to the 1990 Indenture.

“**1990 Fiscal Agent**” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its trust office in Los Angeles, California, as successor 1990 Fiscal Agent under the 1990 Indenture.

“**1990 Indenture**” means the Indenture dated as of November 1, 1990, by and between the District and U.S. Bank National Association, as successor 1990 Fiscal Agent, pursuant to the terms thereof.

“**1990 Reserve Fund**” means the Bond Reserve Fund created and established pursuant to the 1990 Indenture.

“**1990 Special Tax Fund**” means the fund by that name created and established pursuant to the 1990 Indenture.

“**Account**” means any account created pursuant to the Indenture.

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

“**Administrative Expense Account**” means the Account by that name of the Special Tax Fund created and established pursuant to the Indenture.

“**Administrative Expenses**” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the

Bonds and the District, and any other costs otherwise incurred by the County staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“Administrator of the District” means the County Executive Officer or any other person or persons designated by the County Executive Officer by a written certificate signed by the County Executive Officer and containing the specimen signature of each such person.

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

“Appraisal” means the appraisal of the taxable property in the District dated May 25, 2006, delivered in connection with the initial sale and issuance of the Bonds.

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

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) 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:

- Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Senior debt obligations

Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

- Student Loan Marketing Association (SLMA)
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)
- Financing Corporation (FICO)
Debt obligations
- Resolution Funding Corporation (REFCORP)
Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated at the time of purchase "A-1+" by Standard & Poor's and "Prime-1" by Moody's).

(7) Money market funds rated "AAM" or "AAM-G" by Standard & Poor's, or better, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

(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 Standard & Poor's, 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 Standard & Poor's 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 Standard & Poor's 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:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s 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 Standard & Poor’s 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 Standard & Poor’s and Moody’s, provided that:

(a) the market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Trustee to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(b) the Trustee 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 Standard & Poor's is withdrawn or suspended or falls below "A-" by Standard & Poor's or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), 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 Standard & Poor's and Moody's, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice, for the reasons under the Indenture; the District and the Trustee agrees 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;

(C) the investment agreement shall state that 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;

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

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

(1) the provider's rating by either Standard & Poor's 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 (i) 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 Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at 104% of U.S. Treasury and GNMA obligations and 105% of FNMA and FHLMC obligations (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

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

(F) 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); and

(G) 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 Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, 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 Trustee; as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep moneys available for the purposes of the Indenture.

(13) The Riverside County Treasurer's Investment Pool.

"Authorized Representative of the County" means the County Executive Officer or any other person or persons designated by the County Executive Officer by a written certificate signed by the County Executive Officer and containing the specimen signature of each such person.

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

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

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

“Bonds” means the Community Facilities District No. 87-1 of the County of Riverside Special Tax Refunding Bonds, Series 2006.

“Bond Year” means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

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

“Certificate of the Special Tax Administrator” means a certificate of the Administrator of the District, or any successor entity appointed by the County, to administer the calculation and collection of the Special Taxes.

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

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2006, executed by and between the District and U.S. Bank National Association, together with any amendments thereto.

“County” means the County of Riverside, California.

“Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“Depository” means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Indenture.

“Developed Property” means real property within the District for which a building permit has been issued.

“District” means Community Facilities District No. 87-1 of the County of Riverside established pursuant to the Act and the Resolution of Formation.

“**Earnings Fund**” means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

“**Eastern Municipal Water District Joint Financing and Construction Agreement**” means the Joint Financing and Construction Agreement, dated as of May 1, 1990, by and among the District, Eastern Municipal Water District and the other parties named therein, as amended and supplemented, including as supplemented by the Sixth Supplemental Agreement made and entered into as of August 13, 1996, by and between the District and Eastern Municipal Water District.

“**Escrow Agent**” means U.S. Bank National Association, as the 1990 Fiscal Agent and as escrow agent under the Escrow Agreement.

“**Escrow Agreement**” means the Escrow Agreement, dated as of July 1, 2006, by and between the District and U.S. Bank National Association, as escrow agent.

“**Escrow Fund**” means the fund by that name established pursuant to the Escrow Agreement, dated as of July 1, 2006, by and between the District and U.S. Bank National Association.

“**Federal Securities**” means any of the following: (a) non-callable, non-prepayable, direct obligations of the United States of America (“Treasuries”), (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries 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 Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s and Moody’s, respectively (or any combination thereof).

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

“**Gross Taxes**” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions or any settlement thereof.

“**Indenture**” means the Indenture, together with any Supplemental Indenture approved pursuant to the Indenture.

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

- (1) is in fact independent and not under the domination of the District or the County;
- (2) does not have any substantial interest, direct or indirect, in the District or the County; and

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

“**Interest Account**” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“**Interest Payment Date**” means each March 1 and September 1, commencing March 1, 2007; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“**Investment Agreement**” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments in the Indenture.

“**Legislative Body**” means the Board of Supervisors of the County of Riverside acting *ex officio* as the legislative body of the District.

“**Maximum Annual Debt Service**” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a sinking fund payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

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

“**Net Taxes**” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

“**Nominee**” means the nominee of the Depository, which may be the Depository.

“**Ordinance**” means Ordinance No. 693 adopted by the Board of Supervisors of the County on August 7, 1990, providing for the levying of the Special Tax.

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

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;

(2) Bonds and Parity Bonds for payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity 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 for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds and with bonds issued to refund all or a portion of the Bonds.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

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

“Principal Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

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

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

“Rating Agency” means Moody’s and Standard & Poor’s, or both, as the context requires.

“Rebate Account” means the account by that name created and established in the Rebate Fund pursuant to the Indenture.

“Rebate Fund” means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

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

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

“Redemption Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“**Regulations**” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Sections 103 and 141 to 150 of the Code.

“**Representation Letter**” means the Blanket Letter of Representations from the District and the Paying Agent to the Depository as described in the Indenture.

“**Reserve Account**” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“**Reserve Requirement**” means that amount as of any date of calculation equal to the least of (i) 10% of the original proceeds of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

“**Resolution of Formation**” means Resolution No. 87-378 adopted by the Board of Supervisors of the County on December 1, 1988, pursuant to which the County formed the District.

“**RMA**” means the Rate and Method of Apportionment of Special Taxes for the District approved by the qualified electors of the District at the March 22, 1988 election, as amended from time to time.

“**Six-Month Period**” means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

“**Special Tax Fund**” means the fund by that name created and established pursuant to the Indenture.

“**Special Taxes**” means the taxes authorized to be levied by the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the March 22, 1988 election in the District, as such proceedings may be amended or supplemented pursuant to State law, including any scheduled payments, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest thereon.

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

“**Supplemental Indenture**” means any supplemental indenture amending or supplementing the Indenture pursuant to the Indenture.

“**Surplus Fund**” means the fund by that name created and established pursuant to the Indenture.

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

“**Tax-Exempt**” means, with reference to an Authorized Investment, an Authorized 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.

“**Treasurer**” means the Treasurer-Tax Collector of the County of Riverside.

“**Trustee**” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank, association or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“**Underwriter**” means Stone & Youngberg LLC with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

“**Verification**” shall have the meaning contained in the definition of Authorized Investments (9)(c) in the Indenture.

THE BONDS

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

Execution and Authentication. The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Chairman of the Legislative Body of the County and countersigned by the manual or facsimile signature of the Clerk of the Board of Supervisors, or any duly appointed deputy Clerk of the Legislative Body, in their capacity as officers of the District, and the seal of the District (or a facsimile thereof) may be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the Clerk of the Legislative Body. In case any one or more of the officers who shall have signed or sealed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed and sealed have been authenticated and delivered by the Trustee (including new Bonds or Parity Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds and Parity Bonds shall nevertheless be valid and may be authenticated and delivered as provided in the Indenture, and may be issued as if the person who signed or sealed such Bonds or Parity Bonds had not ceased to hold such office.

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

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

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

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

Bonds or Parity Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Trustee shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the District.

Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

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

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing or refinancing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. The District shall not issue Parity Bonds for the purposes of funding additional Project costs. Parity Bonds may only be issued for the purpose of refunding a portion of the Bonds then outstanding subject to the condition that the District must be in compliance with all covenants set forth in the Indenture and any Supplement then in effect and a certificate of the District to that effect will be filed with the Trustee; provided however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants

so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Deposits to and Disbursements from Special Tax Fund.

(a) The Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

- (1) the Administrative Expense Account of the Special Tax Fund;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) the Reserve Account of the Special Tax Fund;
- (6) the Rebate Fund; and
- (7) the Surplus Fund.

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

Administrative Expense Account of the Special Tax Fund. The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of the Administrator of the District. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by the Administrator of the District and shall be disbursed as directed in a Certificate of the Administrator of the District.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Indenture, at least one Business Day prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are

inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2007, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

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

(b) Pursuant to the Eastern Municipal Water District Joint Financing and Construction Agreement, the District may receive reimbursement for certain specified oversizing or other costs and such reimbursements may be deposited to the Redemption Account or the Interest Account or the Principal Account of the Special Tax Fund as specified in a Certificate of the Administrator of the District. Portions of such reimbursements deposited to the Redemption Fund shall be applied on the redemption date established pursuant to the Indenture, together with money transferred from the Reserve Account pursuant to the Indenture, to the payment of the principal of and interest on the Bonds and Parity Bonds to be redeemed with such moneys. Portions of such reimbursements deposited to the Interest Account or Principal Account of the Special Tax Fund shall be applied in accordance with the Indenture.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Indenture. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set

aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, as applicable, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

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

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Indenture, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with a redemption of Bonds pursuant to the Indenture or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Indenture, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of the Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) Notwithstanding any provision in the Indenture to the contrary, moneys in the Reserve Account in excess of the portion of the Reserve Requirement required to be on deposit

therein (other than investment earnings) shall be withdrawn from such Reserve Account by the Trustee on each September 2 and shall be transferred in the order of priority as specified in the Indenture.

Rebate Fund.

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

Surplus Fund. After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of the Administrator of the District directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of the Administrator of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; or (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses.

In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of the Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments, the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Earnings Fund. All earnings, except earnings on the Administrative Expense Fund, the Costs of Issuance Fund and the Rebate Fund which shall remain therein, on all Funds and Accounts are to be placed in the Earnings Fund. Upon receipt of such earnings, the Trustee shall disburse from

the Earnings Fund earnings pursuant to a written direction of the District in the following order of priority:

(1) Earnings in excess of the Yield on the Bonds shall be transferred to the Rebate Fund pursuant to a written direction of the Administrator of the District. Any amount remaining in the Earnings Fund after the deposit to the Rebate Fund calculated in accordance with the Indenture has been satisfied shall be applied by the Trustee in the priorities set forth below.

(2) To the Administrative Expense Account, the amount needed to pay the Administrative Expenses.

(3) To the Reserve Account, the amount required to bring the balance in such Account to the Reserve Requirement required to be on deposit therein.

(4) Any remaining balance to the Special Tax Fund.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be deposited as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(b) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(c) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Indenture or in Authorized Investments of the type described in clause (7) of the definition thereof.

(d) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (7) of the definition thereof.

Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the Fund or Account for the credit of which such Authorized Investment was acquired.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

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

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

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

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners and will cause the deposit of all Special Taxes with the Trustee immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District. Notwithstanding the provisions of the Indenture, the District shall have the right to accept less than the minimum bid on any delinquent parcel, and is indemnified from legal claim from Owners of the Bonds, if the Legislative Body determines that the acceptance of less than the minimum bid or another action is in the best interest of the District and in compliance with applicable State law.

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

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

(b) Levy of Special Tax. The Legislative Body covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Special Tax Requirement"). The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax prior to the earlier of June 30, 2020, or the date on which no Bonds or Parity Bonds are Outstanding.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, provided, however, that the District may directly bill all or part of the Special Taxes, and may collect the Special Taxes at a different time or in a different manner if deemed appropriate by the District.

(c) Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District covenants with and for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,500 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1

following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings; provided, however, that, notwithstanding the foregoing, the District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost.

The District covenants that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

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

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

(f) Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income.

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

receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the sum of estimated Administrative Expenses plus 120% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; (ii) such changes do not reduce the maximum Special Taxes that may be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than the sum of estimated Administrative Expenses plus 120% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by four percent (4%) in each subsequent Fiscal Year.

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

(i) Limitation on Right to Tender Bonds. The District may adopt a policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes; provided, however, that the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due and to pay estimated Administrative Expenses when due.

(j) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Agreement and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriter in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Indenture.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

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

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

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

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

(e) in connection with the modification, alteration or amendment of the RMA in any manner, so long as the Trustee receives a certificate satisfying the conditions of the Indenture; or

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

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the Indenture, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds 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 in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

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

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

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

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds or any Parity 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 or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity 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 or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

TRUSTEE

Trustee. U.S. Bank National Association shall be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Indenture. The Trustee represents that it has a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000. The District may, at any time, appoint a successor Trustee satisfying the requirements of the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

The Trustee is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the

cancellation of Bonds and Parity Bonds all as provided in the Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture. The Trustee shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

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

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Trustee, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to compensate and indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds.

Removal of Trustee. The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank, association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank, association or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank, association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Resignation of Trustee. The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in the Indenture by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of itself and all other Owners), may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

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

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

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

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

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

The Trustee shall not be deemed to have knowledge of any default or event of default until an officer at the Trustee's corporate trust office responsible for the administration of its duties under the Indenture shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its corporate trust office.

The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or

rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

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

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

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

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an “Event of Default:”

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

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

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

The Trustee agrees to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 30 days of the Trustee’s knowledge of an event of default under (c) above.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

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

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

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

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or 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.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture and any other funds held by the Trustee relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions relating to Events of Default, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(d) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing;

(e) second, to the payment of all installments of principal, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing; and

(f) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds and Parity Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Non-Waiver. Nothing in the Indenture relating to Events of Default or in any other provision of the Indenture, or in the Bonds or the Parity 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 and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as herein provided, out of the Net Taxes and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners 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 of the Trustee or any Owner of any of the Bonds or Parity Bonds 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 Trustee or the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Section or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

DEFEASANCE AND PARITY BONDS

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

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the Indenture if such Bond or Parity 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 or Parity Bond, as and when the same become due and payable;

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

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and the Earnings 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 or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity 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 or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

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

APPENDIX B

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COUNTY OF RIVERSIDE COMMUNITY FACILITIES DISTRICT NO. 87-1

The special taxes to be levied annually following the issuance of the bonds of Community Facilities District No. 87-1 of the County of Riverside, State of California (the "Community Facilities District"), on taxable property within the boundaries of the Community Facilities District and to be collected during each fiscal year shall be apportioned on an acreage basis, and each acre of taxable property shall have levied thereon the same amount of special tax in each fiscal year.

The amount of special tax to be levied on each parcel of taxable property in the Community Facilities District, as recognized by the County Assessor of the County of Riverside, for each fiscal year shall be determined as follows:

(a) By dividing the total amount necessary to pay (i) the principal of and the interest on the bonds of the Community Facilities district which will be payable during the fiscal year and prior to the time of the receipt of sufficient special tax revenues for the payment of such principal and interest in the succeeding fiscal year, and (ii) the administrative expenses which are estimated to be incurred by and on behalf of the Community Facilities District during the fiscal year by the total number of acres of taxable property in the Community Facilities District to obtain the special tax per acre for each parcel of taxable property; and

(b) By multiplying the total taxable acreage of the parcel by the special tax per acre for the fiscal year.

Administrative expenses include the costs and expenses estimated to be incurred by and on behalf of the Community Facilities District in each fiscal year for the levy and collection of special taxes, the payment of principal and interest on the bonds thereof, and registering, exchanging and transferring such bonds, including but not limited to the fees of engineers, special tax consultants, attorneys, paying agents, fiscal agents and trustees, and expenses incurred for the payment of fees for letters of credit and other credit enhancement costs.

The maximum rate or amount of special tax which may be levied on each acre of taxable property in the Community Facilities District for each fiscal year is \$2,400.

It is estimated that the net taxable acreage of land within the Community Facilities District is 441.04 acres. Assuming (i) a bond issue for the Community Facilities District is the aggregate principal amount of approximately \$6,720,000, (ii) interest on the bonds at the rate of 8.25 percent per annum, (iii) a 25 year bond maturity schedule, (iv) a reserve fund in an amount equal to 10 percent of the aggregate principal amount of the bonds issued, and that interest earnings on the reserve fund will be used for payment of principal and interest on the bonds, and (v) that interest payable on the bonds will be capitalized or funded from bond proceeds for a period of 18 months, and (vi) that annual debt service on the bonds (the amount of principal and interest payable) and the amount of administrative expenses payable in each fiscal year following issuance of the bonds will initially be in the approximate amount of \$580,000 and will increase by two (2) percent each year over the next 24 years to a maximum amount, including administrative expenses, of approximately \$906,000, the expected annual rate or amount of special tax per acre for each parcel of property within the Community Facilities District would vary from a low of approximately \$634 to a high of approximately \$1,900.

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is made and entered into as of July 1, 2006, by Community Facilities District No. 87-1 of the County of Riverside (the “Issuer”) and U.S. Bank National Association (the “Dissemination Agent”), in connection with the issuance by the Issuer of its Special Tax Refunding Bonds, Series 2006 (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture, dated as of July 1, 2006 by and between the Issuer and U.S. Bank National Association, as trustee (the “Indenture”).

The Issuer and the Dissemination Agent hereby agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture and the Rate and Method of Apportionment, 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“Central Post Office” means the DisclosureUSA website maintained by the municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“Disclosure Representative” shall mean the Deputy County Executive Officer or his or her written designee or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean U.S. Bank National Association or any successor Dissemination Agent designated in writing by the Issuer.

“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 purpose of the Rule. The Nationally Recognized Municipal Securities Information Repositories for purposes of the Rule are identified in the Securities and Exchange Commission website located at www.sec.gov/consumer/nrmsir.htm.

“Official Statement” shall mean the Issuer’s official statement with respect to the Bonds.

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation.

“Resolution of Formation” means Resolution No. 87-378, adopted by the Board of Supervisors of County of Riverside on December 8, 1987, pursuant to which County of Riverside formed the Issuer.

“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.

“Tax-exempt” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) Not later than nine months after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the fiscal year ending June 30, 2006, the Issuer shall, or shall cause the Dissemination Agent to, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 15 business days prior to the date referred to in the prior sentence hereof, the Issuer shall provide the Annual Report (in a form suitable for filing with the Repositories) 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. The Issuer 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 Issuer and shall have no duty or obligation to review such Annual Report.

(b) If by the date required in subsection (a) the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice in substantially the form attached as Exhibit A to the Municipal Securities Rulemaking Board (“MSRB”) and each State Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and 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 and the Participating Underwriter, as provided herein; and

(iii) if it has provided the Annual Report pursuant to (ii) above, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder (other than those required to be made with the Participating Underwriter) may be made through a Central Post Office.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. For purposes of this Section 4(a), the financial statements of the County of Riverside shall be deemed to be the financial statements of the Issuer.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund and account under the Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) the assessed valuation of the Taxable Property within the boundaries of the Issuer;

(iv) any changes to the Rate and Method of Apportionment of the Special Tax approved by or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(v) a table setting forth the annual Special Tax delinquency rate within the boundaries of the Issuer at June 30 for each fiscal year in which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;

(vi) the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes; and

(vii) an update of the tables in the Official Statement titled, “Information Concerning the Parcels Comprising the District” and “Top Ten Taxpayers,” except that the assessed values of properties shall be used in place of their appraised values and it shall be sufficient to indicate that a property is either improved or unimproved.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer 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 MSRB. The Issuer 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 Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults,
- (3) unscheduled draws on the Reserve Account reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,
- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions or events adversely affecting the Tax-Exempt status of the Bonds,
- (7) modifications to the rights of Bond Owners,
- (8) unscheduled redemption of any Bond,
- (9) defeasances,
- (10) any release, substitution, or sale of property or letters of credit securing repayment of the Bonds, and
- (11) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer has determined that the Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB and each State Repository and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

(e) In the event that the Issuer's fiscal year changes, the Issuer shall give notice of such change to the Dissemination Agent and shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as a material Listed Event would be reported pursuant to this Section.

(f) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer, and the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Dissemination Agreement may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) the undertakings in this Disclosure Agreement as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners or (ii) does not, in the determination of the Issuer, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Agreement. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination

Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

SECTION 14. 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 15. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 16. 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.

COMMUNITY FACILITIES DISTRICT NO. 87-1
OF THE COUNTY OF RIVERSIDE

By: _____
Deputy County Executive Officer

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By: _____
Its: Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 87-1 of the County of Riverside

Name of Bond Issue: Community Facilities District No. 87-1 of the County of Riverside Special Tax Refunding Bonds, Series 2006

Date of Issuance: _____, 2006

NOTICE IS HEREBY GIVEN that Community Facilities District No. 87-1 of the County of Riverside (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the District Continuing Disclosure Agreement, dated as of July 1, 2006. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____

cc : Issuer

APPENDIX D

INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

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 ("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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other

nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Community Facilities District No. 87-1 of the County of Riverside Special Tax Refunding Bonds, Series 2006, McFarlin & Anderson LLP, Lake Forest, California, Bond Counsel to Community Facilities District No. 87-1 of the County of Riverside, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Date of Issuance]

Board of Supervisors
County of Riverside
Acting as the Legislative Body of
Community Facilities District No. 87-1
of the County of Riverside
4080 Lemon Street, 4th Floor
Riverside, California 92501-3651

**Re: \$_____ Community Facilities District No. 87-1
 of the County of Riverside
 Special Tax Refunding Bonds, Series 2006
 (Final Opinion)**

Ladies and Gentlemen:

We have acted as bond counsel to the Community Facilities District No. 87-1 of the County of Riverside (the "District"), in connection with the issuance by the District of \$_____ aggregate principal amount of its Special Tax Refunding Bonds, Series 2006 (the "Bonds"), pursuant to and by authority of the provisions of the Mello-Roos Community Facilities Act of 1982 (being Section 53311 et seq. of the Government Code of the State of California, as amended) (the "Act"), and pursuant to the Bond Indenture dated as of July 1, 2006 (the "Bond Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Bond Indenture.

In such connection, we have reviewed the record of the proceedings submitted to us relative to the issuance of the Bonds, including the Bond Indenture, the Tax Certificate dated the date hereof (the "Tax Certificate"), the certifications of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Bond Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or

any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Indenture, the Tax Certificate and in certain other documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions and events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture and the Tax Certificate and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion upon the plans, specifications, maps, financial reports, appraisals, market studies and other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the special taxes levied by the District upon any individual parcels within the District. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special tax obligations of the District, payable solely from Net Taxes (as that term is defined in the Bond Indenture) relating to the Bonds, and certain funds held under the Bond Indenture to the extent specified in the Bond Indenture.
2. The Bond Indenture has been duly and lawfully adopted, executed and delivered by, and constitutes the valid and binding obligation of, the District.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 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 individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other federal or State tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The foregoing represent our interpretation of applicable law to the facts as described herein. We bring to your attention that our opinions and conclusions are an expression of professional judgment and are not a guarantee of a result.

Very truly yours,

MCFARLIN & ANDERSON LLP

APPENDIX F
SUMMARY APPRAISAL REPORT

[TO COME FROM APPRAISER]

APPENDIX G

MARKET ABSORPTION STUDY

[TO COME FROM EMPIRE ECONOMICS]