NEW ISSUE—BOOK-ENTRY-ONLY

RATINGS: Moody's: "Aaa" (Insured); "A2" (Underlying)
S & P: "AAA" (Insured); "AA-" (Underlying)
Fitch: "AAA" (Insured); "AA-" (Underlying)
See "RATINGS" herein

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the County described herein, interest with respect to the 2007 Series A Certificates and the 2007 Series B Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest with respect to the 2007 Series A Certificates and the 2007 Series B Certificates is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Special Counsel is further of the opinion that interest with respect to the 2007 Series A Certificates and the 2007 Series B Certificates is exempt from California personal income taxes. See "TAX MATTERS" herein regarding certain other tax considerations.

$111,125,000
COUNTY OF RIVERSIDE
CERTIFICATES OF PARTICIPATION
(PUBLIC SAFETY COMMUNICATION AND REFUNDING PROJECTS)

$73,775,000
2007 SERIES A
(FIXED RATE CERTIFICATES)

$37,350,000
2007 SERIES B
(AUCTION RATE CERTIFICATES)

Dated: Date of Delivery **Due: As shown on inside front cover**

The County of Riverside Certificates of Participation 2007 Series A (Public Safety Communication and Refunding Projects) (Fixed Rate Certificates) ("2007 Series A Certificates") and County of Riverside Certificates of Participation 2007 Series B (Public Safety Communication and Refunding Projects) (Auction Rate Certificates) ("2007 Series B Certificates" and, together with the 2007 Series A Certificates, the "Certificates") are being delivered to (a) finance the enhancement of the public safety communications system (the "Project") for the County of Riverside (the "County"), (b) to provide funds to refund, on a current basis, the Prior Certificates (as defined herein), (c) to fund the cash portion of a reserve fund for the Certificates and to pay the premium for a debt service reserve surety bond to provide the balance of the reserve requirement for the Certificates; and (d) to pay the costs of the financing, all as more particularly described herein. See "THE PROJECT" and "THE REFUNDING PLAN."

The Certificates will be executed and delivered as fully registered Certificates in book-entry form, initially registered in the name of Cede & Co, as nominee of The Depository Trust Company, New York, New York ("DTC"), security depository for the Certificates. Beneficial ownership of Certificates will be available in denominations of $5,000 or integral multiples of $5,000, in the case of the 2007 Series A Certificates, and in denominations of $25,000 or integral multiples of $25,000, in the case of the 2007 Series B Certificates. The 2007 Series A Certificates will be dated the date of their initial execution and delivery and will be issued as fixed rate certificates. The 2007 Series B Certificates will be dated the date of their initial execution and delivery and will be delivered initially as auction rate certificates. This Official Statement only describes the terms of the 2007 Series B Certificates while they bear interest at an Auction Period Rate.

Individual purchases of the Certificates will be made exclusively by book-entry form. Purchasers of the Certificates will not receive physical certificates representing their interests in the Certificates purchased. The principal and interest evidenced and represented by the Certificates are payable directly to DTC by Wells Fargo Bank, National Association, as trustee (the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Certificates. See Appendix D "BOOK-ENTRY-ONLY SYSTEM."

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among the County, the County of Riverside Asset Leasing Corporation (the "Corporation") and the Trustee. The Certificates evidence and represent the rights of the registered owners thereof in base rental (the "Base Rental") payments to be made by the County under a Sublease and Option to Purchase, dated as of August 1, 2007 (the "Sublease"), between the County and the Corporation for the right to sublease from the Corporation certain real property, buildings and improvements referred to herein as the Leased Premises.

The Base Rental to be paid by the County to the Corporation pursuant to the Sublease will be in amounts calculated to be sufficient to pay principal and interest represented by the Certificates when due. The County has agreed in the Sublease to pay all Base Rental, subject to abatement of such Base Rental in the event of substantial interference with the use or right of possession of the Leased Premises or a taking of the Leased Premises in whole or in part. The County has covenanted in the Sublease to take such action as may be necessary to include Base Rental and Additional Rental (as defined herein) in its annual budgets and to make the annual appropriations therefor.

The Certificates are subject to prepayment, prior to their maturity dates, as described herein. See "2007 SERIES A CERTIFICATES ("FIXED RATE CERTIFICATES")—Prepayment Provisions for the 2007 Series A Certificates" and "2007 SERIES B CERTIFICATES ("AUCTION RATE CERTIFICATES")—Prepayment Provisions for the 2007 Series B Certificates."

The scheduled payment of the principal and interest with respect to all of the Certificates other than the Certificates maturing on November 1, 2007, 2008 and 2009 (the "Insured Certificates") will be insured by a financial guaranty insurance policy (the "Certificate Insurance Policy") to be issued simultaneously with the delivery of the Insured Certificates by Ambac Assurance Corporation (the "Certificate Insurer").

Ambac

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Certificates are offered when, as and if executed, delivered and received by the Underwriters, subject to the approval of Nixon Peabody LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the County and the Corporation by Joe Rank, Esq., County Counsel. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, Los Angeles, California. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, on or about August 22, 2007.

Lehman Brothers **Merrill Lynch & Co.**

Dated: August 9, 2007

MATURITY SCHEDULE

County of Riverside
Certificates of Participation
(Public Safety Communication and Refunding Projects)
2007 Series A
(Fixed Rate Certificates)

Maturity Date (November 1)	Principal Amount	Interest Rate (%)	Yield (%)	CUSIP
2007+	$1,785,000	4.00%	3.67%	768901RU6
2008+	1,560,000	4.00	3.70	768901RV4
2009+	1,625,000	4.00	3.76	768901RW2
2010	1,695,000	4.00	3.73	768901RX0
2011	3,200,000	5.00	3.82	768901RY8
2011	5,525,000	4.00	3.82	768901RZ5
2012	1,525,000	5.00	3.87	768901SA9
2012	2,000,000	4.00	3.87	768901SB7
2012	5,580,000	3.85	3.87	768901SC5
2013	8,885,000	5.00	3.95	768901SD3
2014	9,370,000	5.00	4.01	768901SE1
2015	9,840,000	5.00	4.07	768901SF8
2016	7,835,000	5.00	4.13	768901SG6
2016	2,500,000	4.25	4.13	768901SH4
2017	10,850,000	5.00	4.19	768901SJ0

(+) Uninsured Certificates.

County of Riverside
Certificates of Participation
(Public Safety Communication and Refunding Projects)
2007 Series B
(Auction Rate Certificates)

Initial Auction Date	September 7, 2007
Length of Initial Period	19 days
Auction Date Generally	Every Friday
Auction Period Generally	7 Days
Initial Interest Payment Date	September 10, 2007
Interest Payment Date Generally	Every Monday
Final Maturity Date	November 1, 2021
CUSIP	768901 SK7
Broker Dealers	Lehman Brothers Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated

COUNTY OF RIVERSIDE

County Executive Office
4th Floor
4080 Lemon Street
Riverside, California 92501

Board of Supervisors

John Tavaglione, Second District, Chairman
Roy Wilson, Fourth District, Vice Chairman
Bob Buster, First District
Jeff Stone, Third District
Marion Ashley, Fifth District

County Officials

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

SPECIAL SERVICES

Special Counsel

Nixon Peabody LLP
Los Angeles, California

Financial Advisor

RBC Capital Markets
Los Angeles, California

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

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Certain of the information set forth herein has been obtained from the County, the Corporation, and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. 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 County since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates and may not be reproduced or used, in whole or in part, for any other purpose unless authorized in writing by the County. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

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 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County or the Corporation.

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

IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME-TO-TIME BY THE UNDERWRITERS.

THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION CONTAINED IN SECTION (3)(A)(2) OF SUCH ACT. THE TRUST AGREEMENT HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

THE COUNTY HAS ENTERED INTO AN UNDERTAKING FOR THE BENEFIT OF THE HOLDERS OF THE CERTIFICATES TO PROVIDE CERTAIN FINANCIAL INFORMATION AND OPERATING DATA TO CERTAIN INFORMATION REPOSITORIES ANNUALLY AND TO PROVIDE NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OR TO CERTAIN INFORMATION REPOSITORIES OF CERTAIN EVENTS, PURSUANT TO THE REQUIREMENTS OF SECTION (b)(5)(i) OF RULE 15-C2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.

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OFFICIAL STATEMENT

Relating to:

$111,125,000
County of Riverside
Certificates of Participation
(Public Safety Communication and Refunding Projects)

$73,775,000	**$37,350,000**
2007 Series A	**2007 Series B**
(Fixed Rate Certificates)	**(Auction Rate Certificates)**

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of this Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Sublease. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS" attached hereto.

General

This Official Statement, including the cover and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of Riverside Certificates of Participation (Public Safety Communication and Refunding Projects), 2007 Series A (Fixed Rate Certificates), in an aggregate principal amount of $73,775,000 (the "2007 Series A Certificates") and the County of Riverside Certificates of Participation (Public Safety Communication and Refunding Projects), 2007 Series B (Auction Rate Certificates), in an aggregate principal amount of $37,350,000 (the "2007 Series B Certificates" and, together with the 2007 Series A Certificates, the "Certificates" and individually a "Series of Certificates"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement referred to below. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions."

The proceeds of the Certificates will be used to (a) finance the acquisition, construction and installation of an enhancement of the public safety communications system for the County of Riverside (the "County"); (b) to currently refund the County of Riverside Certificates of Participation (1997 Lease Refunding Project) executed and delivered pursuant to a Trust Agreement dated as of September 1, 1997 (the "Prior Trust Agreement") by and between the County and First Trust of California, National Association (the predecessor to U.S. Bank National Association, the "Prior Trustee"), as trustee (the "Prior Certificates"); (c) to fund the cash portion of a reserve fund for the Certificates and to pay the premium for a debt service reserve surety bond (the "Surety Bond") provided by Ambac Assurance Corporation to provide the balance of the reserve requirement for the Certificates (the "Reserve Fund"); and (d) pay costs of executing and delivering the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS" hereinafter.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among the County, the County of Riverside Asset

Leasing Corporation (the "Corporation") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and will evidence and represent the proportionate interests of the registered owners thereof (the "Owners") in base rental payments (the "Base Rental") to be paid by the County for the right of use and occupancy by the County of certain real property, buildings and improvements (the "Leased Premises"). See "THE LEASED PREMISES." The Leased Premises will be leased by the County to the Corporation pursuant to a Site and Facilities Lease, dated as of August 1, 2007 (the "Site Lease"). The Corporation will sublease the Leased Premises to the County pursuant to a Sublease and Option to Purchase, dated as of August 1, 2007 (the "Sublease"). Pursuant to an Assignment Agreement, dated as of August 1, 2007 (the "Assignment Agreement"), the Corporation will assign to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates executed and delivered pursuant to the Trust Agreement, substantially all its right, title and interest in the Site Lease and the Sublease, including its right to receive the Base Rental under the Sublease and its rights to enforce the payment of amounts when due in the event of a default by the County or otherwise to protect the interests of the Owners.

Brief descriptions of the Certificates, the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement, the Corporation, the County, and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Certificates, the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement and other documents are qualified in their entirety by reference to the actual documents, copies of all of which are available for inspection at the corporate trust office of the Trustee in Minneapolis, Minnesota.

The Certificates

The Certificates will be executed and delivered in the form of fully registered Certificates in denominations of $5,000 or any integral multiple of $5,000, in the case of the 2007 Series A Certificates, and in denominations of $25,000 or any integral multiple of $25,000, in the case of the 2007 Series B Certificates. The Certificates will be dated their date of delivery. See "THE CERTIFICATES."

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interest in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee from Base Rental. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to its participants who are responsible for distributing such payments to the beneficial owners of the Certificates. See "THE CERTIFICATES—General" herein and Appendix D "BOOK-ENTRY-ONLY SYSTEM" attached hereto.

Security and Sources of Payment for the Certificates

Under the Sublease, as consideration for the use and occupancy of the Leased Premises, the County is to make Base Rental payments and certain other payments designated as Additional Rental (the "Additional Rental") in the amounts, at the times and in the manner set forth in the Sublease. Pursuant to the Trust Agreement, the Trustee is to distribute the Base Rental received from the County, which constitutes the principal and interest evidenced and represented by the Certificates. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Sublease in its annual budget, and to make the necessary annual appropriations for all Base Rental and Additional Rental, except to the extent such payments are abated. However, the County is not obligated to levy or pledge any form of taxation for the payment of Base

Rental for the Leased Premises, nor has the County done so. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

The County's obligation to pay Base Rental under the Sublease is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Account representing earned Base Rental, moneys available in the Reserve Fund and proceeds of rental interruption insurance are available to pay the Base Rental. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

Pursuant to the Trust Agreement, the Surety Bond and proceeds from the sale of the Certificates will be used to fund the Reserve Fund in the amount of the Reserve Requirement. See "SECURITY AND SOURCES FOR PAYMENT FOR THE CERTIFICATES—Reserve Fund" herein and Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS" attached hereto.

Financial Guaranty Insurance Policy With Respect to the Certificates

Payment of the principal of and interest with respect to all of the Certificates other than the Certificates maturing on November 1, 2007, 2008 and 2009 (the "Insured Certificates") when due will be insured by a financial guaranty insurance policy (the "Certificate Insurance Policy") to be issued concurrently with the delivery of the Insured Certificates by Ambac Assurance Corporation (the "Certificate Insurer"). See "CERTIFICATE INSURANCE" herein and Appendix G "FORM OF FINANCIAL GUARANTY INSURANCE POLICY" attached hereto.

Prepayment

The 2007 Series A Certificates are subject to extraordinary prepayment prior to their maturity dates. The 2007 Series B Certificates are subject to extraordinary, optional and mandatory prepayment prior to their maturity dates. See "2007 SERIES A CERTIFICATES ("FIXED RATE CERTIFICATES")—Prepayment Provisions for the 2007 Series A Certificates" and "2007 SERIES B CERTIFICATES ("AUCTION RATE CERTIFICATES")—Prepayment Provisions for the 2007 Series B Certificates" herein.

Tax Matters

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the covenants set forth in Sublease and the Trust Agreement, and the accuracy of certain representations and certifications made by the County in such documents, interest with respect to the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest with respect to the Certificates is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Special Counsel is also of the opinion that interest with respect to the Certificates is exempt from California personal income taxes. Special Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Certificates or as to the taxability of the Certificates or the income therefrom under the laws of any state other than California. See "TAX MATTERS" herein.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions. It is anticipated that the Certificates in definitive form will be available for delivery to DTC on or about August 22, 2007.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, in accordance with Securities Exchange Commission Rule 15c2-12(b)(5), certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5). See "— Continuing Disclosure" herein.

THE LEASED PREMISES

The Leased Premises consist of five separate buildings, an administrative center, a nature preserve and a parking structure, which are described in detail below. Upon completion of the Project, the County intends to substitute the real and personal property comprising the Project for the Leased Premises hereinafter described. See "THE PROJECT" herein.

County Administrative Center. This component consists of a building known as the Riverside County Administrative Center ("CAC") located at 4080 Lemon Street in downtown Riverside, California recently appraised at $77 million. The CAC is a 13 story, 296,776 square foot Class "A" steel frame and glass panel administrative building. The CAC was originally built in 1967 as a three-story office building with a basement level and a small sub-basement. A 10 story office tower was built on top of the original building in the mid 1970s. The CAC houses various County departments, including the Treasurer-Tax Collector's office.

Transportation Land Management Agency Building. This component consists of land and a two-story, 20,857 square foot building located at 3525 Fourteenth Street, Riverside, California valued by the County at approximately $4.6 million. The building houses the County's Transportation Land Management Agency and certain divisions of such agency.

District Attorney Building. This component consists of land and an eight-story 76,200 square foot office building and a 43,570 square foot, three-level parking garage with 106 spaces located at 4075 Main Street, Riverside, California valued by the County at approximately $12.2 million. The building is occupied by all of the divisions of the District Attorney's office, except for the Juvenile and Family Support Divisions.

Corona County Administrative Center. This component consists of land and a two-story above grade and a one-story below grade 47,068 square foot building located at 505 South Buena Vista, Corona, California valued by the County at approximately $12.2 million. The County uses the facility to provide a variety of County services.

Library Administrative Building. This component consists of land and a two-story 42,240 square foot building located at 3021 Franklin, Riverside, California valued by the County at approximately $6.3 million. The building was purchased in 1992 to provide administrative space for the County's library system. The County has placed additional departments in the building to share the space.

Santa Rosa Plateau. This component includes the County's portion of the Santa Rosa Plateau Nature Preserve valued by the County at approximately $15.1 million. The nature preserve consists of 3,800 acres of land which includes many unique environmental and recreational assets. The land was purchased in 1991 from the Nature Conservancy, which currently operates the nature preserve under an agreement with the County, the State of California and The Metropolitan Water District of Southern California. The County's portion is 1,889 acres and title is vested with the County subject to the operating agreement with the Nature Conservancy.

Downtown Riverside Parking Structure. This component consists of land and a multi-level parking structure located adjacent to the CAC in downtown Riverside valued by the County at approximately $14.8 million. The facility consists of 988 spaces. The land was contributed by the City of Riverside (the "City"), which has rights for use of 200 spaces. Fee title to the land was conveyed subject to the City's right to use 200 spaces.

THE PROJECT

The Project entails the enhancement of the County's public safety communications system (the "System"). The System is the means by which field deputies in the County's Sheriff's Department communicate among each other, answer calls and dispatch sheriff, fire and paramedic services. The current System includes various parcels of land, transmission towers, voice and data radio infrastructure, handheld and aircraft radios, and a mobile data radio system.

Due to regulatory mandates from the Federal Communications Commission and Department of Homeland Security, equipment aging, increasing maintenance burdens, fleet increases, rapidly increasing communications loads of the departments and the population growth of Riverside County, the County has determined that it is vital to undertake the Project to significantly upgrade the current System. The County's System will be developed on VHF and 800MHz frequencies with the capability of operating on the 700MHz frequency when the 700 band is released by the FCC for Public Safety.

The primary goals of the Project are to increase the deputy connectivity success rate from the current 80% to 95%, to expand the reach of the System from 60% coverage within the County to 95% coverage, provide for increased capacity and significantly improve the System's performance. This operational improvement addresses safety issues faced by deputies in the field.

Following a competitive process, the County awarded the primary contract for the upgrading of the System to Motorola, Inc. The contract amount is approximately \$104 million and the Project is expected to be completed in approximately 44 months. In addition to the contract with Motorola, Inc., the County expects to contribute an additional approximately \$44 million to acquire the necessary parcels of land and to implement the Project for an estimated total Project cost of \$148 million.

Components of the Project include the addition and/or expansion of up to 65 sites for the location of transmission equipment to serve the System. Approximately 17 of these sites are currently owned or otherwise controlled by the County and will undergo improvements. The County has commenced the identification and selection process for the remaining sites. The County expects that some of these sites will be direct purchases of the real property and others will become available through long-term lease arrangements.

The County expects to replace all existing handheld and mobile radios with new multiband handheld and mobile radios that will operate in the VHF, 700 and 800 MHz frequency. Aircraft radios must meet stringent Federal Aviation Administration specifications. The Project will provide for the implementation of over 60 licensed frequencies in the 800 MHz, VHF, and 4.9 GHz bands and aircraft radios to support field operations. The Project will also replace the County's mobile data radio fixed infrastructure and mobile data computers installed in sheriff's department vehicles.

In addition to direct benefits to the County's sheriff department, the enhanced System will provide higher levels of interoperability that would permit other governmental agencies to communicate with the County's System. This feature of the enhanced System will allow the development of a regional communication system that is available to other agencies while using limited radio frequencies and providing maximum interoperability.

THE REFUNDING PLAN

The County previously caused the Prior Certificates to be executed and delivered for the purpose of refunding its Certificates of Participation Series 1991A (Capital Projects) and Series 1991B (Equipment Projects), the proceeds of which were used to finance the lease of certain real property and the buildings and improvements situated thereon as well as certain equipment. The Prior Certificates were executed and delivered pursuant to the Prior Trust Agreement. The County is undertaking a current refunding of all of the outstanding Prior Certificates in order to reduce its debt service obligations. The Prior Certificates will be prepaid on November 1, 2007.

A portion of the net proceeds of the Certificates along with certain funds to be released by the Prior Trustee from the Prior Trust Agreement will be deposited with U.S. Bank National Association, as escrow agent (the "Escrow Agent") and held in the Escrow Fund (the "Escrow Fund") created under the terms of an Escrow Agreement, dated as of August 1, 2007 (the "Escrow Agreement") by and between the County and the Escrow Agent. Amounts deposited in the Escrow Fund shall be used to acquire securities which upon maturity will provide sufficient funds to prepay the outstanding principal with respect to the Prior Certificates, prepayment premium and all accrued interest on the Prior Certificates.

Pursuant to the Prior Trust Agreement, upon deposit by the County of funds sufficient to provide for the prepayment of the Prior Certificates, the lien of the Prior Trust Agreement shall be released and all of the County's obligations under the Prior Trust Agreement shall cease and terminate.

The maturity date, principal amount, prepayment price, interest rate and CUSIP numbers of the Prior Certificates to be prepaid on November 1, 2007 are set forth in the table below:

Maturity Date (November 1)	Principal Amount	Prepayment Price	Interest Rate	CUSIP Number
2007	$1,435,000	100.00%	5.500%	768901 JV3
2008	1,515,000	101.00	4.700	768901 JW1
2009	1,590,000	101.00	4.800	768901 JX9
2010	1,670,000	101.00	4.875	768901 JY7
2011	1,740,000	101.00	5.000	768901 JZ4
2012	1,830,000	101.00	5.000	768901 KA7
2017	7,250,000	101.00	5.125	768901 KB5
2021	7,260,000	101.00	5.125	768901 KC3

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the Certificates and other amounts are as follows:

Sources	
Principal Amount of 2007 Series A Certificates	$73,775,000.00
Principal Amount of 2007 Series B Certificates	$37,350,000.00
Net Original Issuer Premium	$3,271,570.45
Transfer from Prior Trust Agreement	$405,151.58
Total Sources	$114,801,722.03
Uses	
Deposit to Construction and Acquisition Account	$80,000,000.00
Costs of Issuance[1]	$720,346.72
Transfer to Escrow Agent for deposit in Escrow Fund	$24,901,688.64
Deposit to Reserve Fund	$8,683,500.00
Underwriter's Discount	$496,186.67
Total Uses	$114,801,722.03

[1] Includes amounts to pay the costs of executing and delivering the Certificates, including fees for financial advisor, bond counsel, trustee, trustee's counsel, verification agent, printing costs, Certificate Insurance premium, Surety Policy, and certain other miscellaneous cost of issuance.

THE CERTIFICATES

General

The Certificates evidence proportionate undivided interests in the Base Rental to be made by the County under the Sublease. The Certificates shall be prepared in the form of fully registered Certificates in the denominations of $5,000 or integral multiples of $5,000, in the case of the 2007 Series A Certificates, and in denominations of $25,000 or integral multiples of $25,000, in the case of the 2007 Series B Certificates. The Certificates are dated the date of delivery.

The Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. See Appendix D "BOOK-ENTRY-ONLY SYSTEM" attached hereto.

Book-Entry-Only System

DTC will act as securities depository for the Certificates. The Certificates shall initially be issued exclusively in book-entry form and will be registered in the name of Cede & Co., DTC's partnership nominee. One fully registered certificate will be executed and delivered for each maturity date of each Series in the aggregate principal amount applicable to that maturity date and Series. So long as Cede & Co. is the registered owner of the Certificates (except as otherwise specified herein), as nominee of DTC, references herein to the Owners of the Certificates shall mean Cede & Co. and shall not mean the actual purchasers of the Certificates (except as otherwise specified herein). See Appendix D "BOOK-ENTRY-ONLY SYSTEM" attached hereto.

2007 SERIES A CERTIFICATES ("FIXED RATE CERTIFICATES")

Description of the 2007 Series A Certificates

The 2007 Series A Certificates will be executed and delivered in an aggregate principal amount of $73,775,000, will be dated the date of delivery, and will evidence and represent principal components and interest components of the Base Rental, from the date of the 2007 Series A Certificates to their respective final maturity dates or prior prepayment dates, in the amounts and at the rates set forth on the inside front cover of this Official Statement. The 2007 Series A Certificates will be executed and delivered as fully registered certificates without coupons in book-entry form. Beneficial ownership of the 2007 Series A Certificates will be available in principal amounts of $5,000 or any integral multiple thereof.

Interest represented by the 2007 Series A Certificates will be payable semiannually on May 1 and November 1 in each year (each, an "Interest Payment Date"), commencing November 1, 2007, and will be calculated based on a 360 day year of twelve 30 day months. Such interest will be payable by check mailed by first-class mail to the respective Owners thereof at their respective addresses, as they appear on the books required to be kept by the Trustee, at the close of business on the fifteenth day of the month next preceding each Interest Payment Date, except that in the case of an Owner of $1,000,000 or more in aggregate principal amount of Outstanding 2007 Series A Certificates such payment may, at such Owner's option, be made by wire transfer of immediately available funds in accordance with instructions to the Trustee provided by such Owner prior to the applicable fifteenth day of the month next preceding such Interest Payment Date. See "THE CERTIFICATES—Book-Entry-Only System" and Appendix D "BOOK-ENTRY-ONLY SYSTEM."

The principal evidenced and represented by the 2007 Series A Certificates will be payable by check on the respective maturity dates or on prepayment prior thereto upon surrender of the Certificates at the corporate trust office of the Trustee in Minneapolis, Minnesota.

Prepayment Provisions for the 2007 Series A Certificates

Optional Prepayment. The 2007 Series A Certificates are not subject to optional prepayment prior to maturity.

Extraordinary Mandatory Prepayment From Eminent Domain and Insurance Proceeds. The 2007 Series A Certificates are subject to extraordinary prepayment on any date prior to their respective maturity dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each maturity date, in authorized denominations, from prepayments made, under the circumstances described in the Trust Agreement and the Sublease (see Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease"), from money transferred to the Prepayment Account representing the net proceeds collected from a taking of the Leased Premises or a portion thereof under the power of eminent domain or from insurance covering damage to or destruction of Leased Premises or a title defect relating to the Leased Premises, at a prepayment price equal to the principal amount evidenced and represented by the Certificates to be prepaid, plus accrued interest represented by the Certificates to be prepaid to the date of prepayment.

Selection of Certificates for Prepayment. If less than all of the 2007 Series A Certificates are to be prepaid on any one date, the Trustee shall, consistent with the Sublease, select Certificates for prepayment among maturities as directed by the County, and within a maturity by lot in such manner as the Trustee shall determine; provided that the portion of any Certificate to be prepaid shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Prepayment. Notice of prepayment will be delivered by first-class mail to respective Owners of any 2007 Series A Certificates designated for prepayment at their addresses as they appear on the books of the Trustee, mailed not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the prepayment price and will state that the interest represented by the 2007 Series A Certificates designated for prepayment shall cease to accrue from and after such prepayment date. Notice of prepayment shall also be given to certain securities depositories and information services. The failure of any Owner to receive such prepayment notice or any defect therein shall not affect the validity of the prepayment of any 2007 Series A Certificates.

Effect of Prepayment. If the notice referred to hereinabove has been given and if the moneys necessary for the prepayment of the 2007 Series A Certificates identified in such notice (including interest to the applicable date of prepayment) have been set aside in the Certificate Fund, the 2007 Series A Certificates identified in the notice to be prepaid shall become due and payable on such date of prepayment and from and after such prepayment date interest with respect to such 2007 Series A Certificates shall cease to accrue and become payable.

2007 SERIES B CERTIFICATES ("AUCTION RATE CERTIFICATES")

The 2007 Series B Certificates will be executed and delivered only in registered form in denominations of $25,000 or any integral multiple thereof. The 2007 Series B Certificates will be dated the date of their initial execution and delivery and will be executed and delivered initially as auction rate certificates ("Auction Rate Certificates"). This Official Statement only describes the terms of the 2007 Series B Certificates while they bear interest at an Auction Period Rate. These following provisions contain only brief descriptions of the terms and provisions of the Auction Rate Certificates, which are more fully described in Appendix H "AUCTION PROCEDURES." Capitalized terms used but not defined below shall have the meanings given in said Appendix H or in Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS."

Maturity Date; Registered Ownership

The 2007 Series B Certificates mature (subject to prior prepayment) on November 1, 2021.

The 2007 Series B Certificates will be registered initially in the name of Cede & Co., as nominee of the Securities Depository, and will be evidenced by one 2007 Series B Certificate for each maturity of the 2007 Series B Certificates in the principal amount of the respective maturities of the 2007 Series B Certificates. Registered ownership of the 2007 Series B Certificates, or any portion thereof, may not thereafter be transferred except as described in Appendix D "BOOK-ENTRY-ONLY SYSTEM."

General Terms of Auction Rate Certificates

Authorized Denominations. The 2007 Series B Certificates will be issued in fully registered form in denominations of $25,000 or any integral multiple thereof.

Interest Payment Dates. Interest with respect to the 2007 Series B Certificates is initially payable on September 10, 2007 and thereafter on each Interest Payment Date, which is defined as follows:

Initially, with respect to Auction Rate Certificates means, September 10, 2007 and thereafter:

(a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period;

(b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period;

(c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest with respect to the Auction Rate Certificates would be payable if such Auction Rate Certificates bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period; and

(d) the date when the final payment of principal of the Auction Rate Certificates becomes due and payable (whether at stated maturity, upon prepayment, or otherwise).

Payments With Respect to Auction Rate Certificates

Accrual of Interest. Interest shall accrue on the Auction Rate Certificates from one Interest Payment Date to, but not including, the next Interest Payment Date computed on the basis of actual days over 360 if the Auction Period is 180 days or less, and on the basis of a 360 day year of twelve 30-day months if the Auction Period is greater than 180 days. Upon Conversion to a Fixed Rate, 2007 Series B Certificates shall bear interest from and including the Conversion Date to the date of payment in full of such 2007 Series B Certificates (computed on the basis of a 360-day year of twelve 30-day months during any Fixed Rate Period).

Medium of Payment. So long as all 2007 Series B Certificates are registered in the name of DTC, interest with respect to any 2007 Series B Certificate shall be payable on each Interest Payment Date by wire transfer to DTC. If the 2007 Series B Certificates are no longer all held by DTC or some other securities depository, interest with respect to any 2007 Series B Certificate shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the Record Date, by check of the Trustee, mailed to the Owner first-class mail at his address as it appears on the Certificate Register, or by wire transfer to any Owner of $1,000,000 or more of 2007 Series B Certificates to the account in the United States specified by such Owner in a written request delivered to the Trustee on or prior to the Record Date for such Interest Payment Date. Payments of defaulted interest shall be paid by check to the Owners of the 2007 Series B Certificates as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owners of the 2007 Series B Certificates not less than

10 days prior thereto. Principal and premium, if any, with respect to any 2007 Series B Certificate are payable upon surrender thereof at the principal corporate trust office or agency of the Trustee in Minneapolis, Minnesota or at the office of any paying agent.

Calculation of Auction Rate

Generally, the Auction Period Rate will be determined by a Dutch auction procedure, but may under certain circumstances be based on indexes and other factors. The Auction Period Rate to be applicable to the 2007 Series B Certificates during each Auction Period shall be determined by the Auction Agent and notice thereof shall be given as determined under the Auction Procedures described in Appendix H "AUCTION PROCEDURES."

Auction Periods

Auction Periods. The first Auction Period for the Auction Rate Certificates will begin on and include the Closing Date and will end on and include September 9, 2007. The first Interest Payment Date for the Auction Rate Certificates will be September 10, 2007. Thereafter, the County expects the Auction Periods for the Auction Rate Certificates to be seven-day Auction Periods, as described below.

The various possible Auction Periods for the Auction Rate Certificates are described below:

(a) with respect to Auction Rate Certificates in a Flexible Auction Period, (i) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (A) in the case of Auction Rate Certificates with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (B) in the case of Auction Rate Certificates with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (C) in the case of the Auction Rate Certificates with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (D) in the case of Auction Rate Certificates with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; and (E) in the case of Auction Rate Certificates with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (ii) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Auction Rate Certificates;

(b) with respect to Auction Rate Certificates in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) with respect to Auction Rate Certificates in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur On This Day	**Auction Period Generally Begins This Day**	**Auction Periods Generally End This Day**
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) with respect to Auction Rate Certificates in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to Auction Rate Certificates in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to Auction Rate Certificates in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) with respect to Auction Rate Certificates in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding January 31 or July 31.

Provided, however, that if there is a conversion of the Auction Rate Certificates with Auctions generally conducted on the day of the week specified in column A of the table above, (a) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (b) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (c) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

Changes in Auction Period or Auction Date

Changes in Auction Period. During any Auction Rate Mode, the County, may, from time-to-time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Auction Rate Certificates among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Certificates. The County shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Auction Rate Certificates.

The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Auction Rate Certificates, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Certificates if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, at the direction of the County, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Auction Rate Certificates. The Auction Agent shall provide notice of the County's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed

Auction Date to the Trustee, the County and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

Conversion to Fixed Rate. At the option of the County, all of the 2007 Series B Certificates bearing interest at an Auction Period Rate may be converted to bear interest at the Fixed Interest Rate. On the conversion date, the 2007 Series B Certificates shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the 2007 Series B Certificates so tendered is payable solely from the proceeds of the remarketing of such 2007 Series B Certificates. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all 2007 Series B Certificates, the 2007 Series B Certificates will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. Should the 2007 Series B Certificates be converted to bear interest at a Fixed Interest Rate, a certificate will be distributed by the Remarketing Agent describing the 2007 Series B Certificates during such Fixed Interest Rate.

Initial Auction Agent and Broker-Dealers

Auction Agent. Wells Fargo Bank, National Association (the "Auction Agent") is appointed as the initial Auction Agent for the Auction Rate Certificates under the Trust Agreement and under an Auction Agent Agreement dated as of August 1, 2007, by and among the Trustee, the County and the Auction Agent.

Broker-Dealers. Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Broker-Dealers") are appointed as the initial Broker-Dealers for the Auction Rate Certificates under the Trust Agreement and two separate broker-dealer agreements dated as of August 1, 2007, among the Auction Agent, the County and each Broker-Dealer.

The Broker-Dealers may take certain actions affecting the Auction Rate Certificates and the auction process, and certain other information, sale or transfer limitations, and historical events may affect the Auction Rate Certificates. See "Certain Considerations Affecting Auction Rate Certificates" below.

Prepayment Provisions for the 2007 Series B Certificates

Optional Prepayment. While the 2007 Series B Certificates bear interest at an Auction Period Rate, they are subject to optional prepayment prior to maturity by the County, as a whole or in part, on the Interest Payment Date immediately following the end of an Auction Period from amounts deposited with the Trustee by the County in furtherance of the exercise of the County's option to purchase the Corporation's interest in the Leased Premises or any portion thereof in accordance with the Sublease and from any other funds available therefor, at a prepayment price equal to the principal amount thereof, without premium, plus accrued but unpaid interest to the prepayment date; provided that after any optional prepayment there should be not less than $5,000,000 in aggregate principal amount of any 2007 Series B Certificates bearing interest at an Auction Period Rate unless otherwise consented to by the Broker-Dealers. All prepayments should be in integral multiples of the Authorized Denomination.

Mandatory Sinking Fund Prepayment. The 2007 Series B Certificates with a maturity date of November 1, 2021 are subject to mandatory prepayment in part, by lot, prior to their maturity date on November 1, 2018 and on each November 1 thereafter, to and including November 1, 2021 from sinking fund installments, at the principal amount to be prepaid, without premium, plus accrued interest represented thereby to the prepayment date, in the principal amounts and on the dates set forth below:

Maturity Date
November 1, 2021

(November 1)	Amount
2018	$11,400,000
2019	11,825,000
2020	12,300,000
2021*	1,825,000

*Maturity

If the Auction Rate Certificates are subject to sinking fund prepayment and the sinking fund prepayment date is not an Interest Payment Date, the Auction Rate Certificates shall be prepaid on the Interest Payment Date immediately preceding the scheduled sinking fund prepayment date. The Auction Rate Certificates in a Flexible Auction Period may be prepaid prior to the end of the Flexible Auction Period pursuant to the sinking fund prepayment schedule. All prepayments shall be in integral multiples of the Authorized Denomination.

Extraordinary Mandatory Prepayment From Eminent Domain and Insurance Proceeds. The 2007 Series B Certificates are subject to extraordinary prepayment on any date prior to their respective maturity dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each maturity date, in authorized denominations, from prepayments made, under the circumstances described in the Trust Agreement and the Sublease (see Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease"), from money transferred to the Prepayment Account representing the net proceeds collected from a taking of the Leased Premises or a portion thereof under the power of eminent domain or from insurance covering damage to or destruction of Leased Premises or a title defect relating to the Leased Premises, at a prepayment price equal to the principal amount evidenced and represented by the 2007 Series B Certificates to be prepaid, plus accrued interest represented by the 2007 Series B Certificates to be prepaid to the date of prepayment.

Selection of Certificates for Prepayment. If less than all of the 2007 Series B Certificates are to be prepaid on any one date, the Trustee shall select 2007 Series B Certificates for prepayment among maturities as directed by the County, and within a maturity by lot in such manner as the Trustee shall determine; provided that the portion of any Auction Rate Certificate to be prepaid shall be in the principal amount of $25,000 or any integral multiple thereof. If less than all of the 2007 Series B Certificates are to be prepaid on any one date in connection with an optional prepayment, the Trustee shall, consistent with the Sublease, select 2007 Series B Certificates for prepayment proportionately among maturities, and within a maturity by lot in such manner as the Trustee deems fair; provided that the portion of any Certificate to be prepaid shall be in the principal amount of $25,000 or any integral multiple thereof.

Notice of Prepayment. Notice of prepayment will be delivered by first-class mail to the Certificate Insurer and, if Auction Rate Certificates are to be prepaid, the Auction Agent and each Broker-Dealer and the respective Owners of any 2007 Series B Certificates designated for prepayment at their addresses as they appear on the books of the Trustee, mailed not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the prepayment price and will state that the interest represented by the 2007 Series B Certificates designated for prepayment shall cease to accrue from and after such prepayment date. Notice of prepayment shall also be given to certain securities depositories and information services. The failure of any Owner to receive such prepayment notice or any defect therein shall not affect the validity of the prepayment of any 2007 Series B Certificates.

Effect of Prepayment. If the notice referred to hereinabove has been given and if the moneys necessary for the prepayment of the 2007 Series B Certificates identified in such notice (including interest to the applicable date of prepayment) have been set aside in the Certificate Fund, the 2007 Series B Certificates identified in the notice to be prepaid shall become due and payable on such date of prepayment and from and after such prepayment date interest with respect to such 2007 Series B Certificates shall cease to accrue and become payable.

Certain Considerations Affecting Auction Rate Certificates

Role of Broker-Dealers. The Broker-Dealers have been appointed by the County to serve as a dealer in the auctions for those securities and are paid by the County for their services. The Broker-Dealers receive broker-dealer fees from the County at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealers in such auctions.

Broker-Dealers are designated in the respective Broker-Dealer Agreements as the Broker-Dealers to contact Existing Owners and Potential Owners and solicit Bids for the 2007 Series B Certificates. The Broker-Dealers will receive Broker-Dealer Fees from the County with respect to the 2007 Series B Certificates sold or successfully placed through it in Auctions for the 2007 Series B Certificates. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the 2007 Series B Certificates.

Bidding by Broker-Dealers. The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for their own account either as a buyer or a seller and routinely do so in the auction rate securities market in their sole discretion. If the Broker-Dealers submit an Order for their own account, they would have an advantage over other Bidders because the Broker-Dealers would have knowledge of some or all of the other Orders placed through the Broker-Dealer in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the County to serve as a Broker-Dealers in the Auction, Broker-Dealers' interests in conducting an Auction may differ from those of Existing Owners and Potential Owners who participate in Auctions. See "—Auction Dealer Fees." The Broker-Dealers would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers may routinely place one or more Bids in an Auction for their own account to acquire the 2007 Series B Certificates for their inventory, to prevent an Auction Failure Event (an event which would result in the Auction Rate being set at the Maximum Rate) or an Auction from clearing at a rate that the Broker-Dealers believe does not reflect the market for the 2007 Series B Certificates. The Broker-Dealers may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding for their own accounts, the Broker-Dealers may also bid outside or inside the range of rates that it posts in its Price Talk. See "—Price Talk."

The Broker-Dealers also may routinely encourage bidding by others in Auctions, including to prevent an Auction Failure Event or an Auction from clearing at a rate that the Broker-Dealers believe does not reflect the market for the 2007 Series B Certificates. The Broker-Dealers may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through them.

Bids by the Broker-Dealers or by those they may encourage to place Bids are likely to affect (a) the Auction Rate—including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid; and (b) the allocation of 2007 Series B Certificates being auctioned—including displacing some Bidders who may have their Bids rejected or receive fewer 2007 Series B Certificates than they would have received if the Broker-Dealers had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the 2007 Series B Certificates involves no significant liquidity or credit risk. The Broker-Dealers are not obligated to continue to place such bids or encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealers believe does not reflect the market for the securities. Investors should not assume that the Broker-Dealers will do so or that an Auction Failure Event will not occur. Investors should also be aware that Bids by the Broker-Dealers or by those they may encourage to place Bids may cause unfavorable Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to the Broker-Dealers' auction desks and any other business units of the Broker-Dealers that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the 2007 Series B Certificates, if all outstanding 2007 Series B Certificates are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealers hold any 2007 Series B Certificates for their own account on an Auction Date, it is the Broker-Dealers' practice to submit a Sell Order into the Auction for the 2007 Series B Certificates with respect to such 2007 Series B Certificates, which would prevent that Auction for the 2007 Series B Certificates from being an All Hold Auction. The Broker-Dealers may, but are not obligated to, submit Bids for their own account in that same Auction for the 2007 Series B Certificates, as set forth above.

Auction Dealer Fees. For many auction rate securities, the Broker-Dealers have been appointed by the issuer of the securities to serve as a dealer for the related auctions and is paid by the issuer for its services. With respect to the 2007 Series B Certificates in this offering, the Broker-Dealers have been appointed to serve as dealers in the Auctions pursuant to each Broker-Dealer Agreement between the County and each Broker-Dealer. That agreement provides that the Broker-Dealers will receive from the County auction dealer fees at an annual rate of a percentage of the principal amount of the 2007 Series B Certificates sold or successfully placed through the Broker-Dealers. As a result, the Broker-Dealers' interest in conducting Auctions may differ from those of investors who participate in Auctions.

The Broker-Dealers may share a portion of the auction dealer fees they receive from the County with other broker-dealers that submit orders through the Broker-Dealers that the Broker-Dealers successfully places in the Auction. In general, auction dealers may share with the broker-dealers a portion of the fees they receive from an issuer when those dealers submit orders for the broker-dealers (on behalf of the broker-dealers or their customers) into auctions in which the broker-dealers do not serve as a dealer. Similarly, with respect to auctions for other auction rate securities for which the Broker-Dealers do not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share auction dealer fees with the Broker-Dealers for orders that the Broker-Dealers submits through those broker-dealers that those broker-dealers successfully place in those auctions.

Price Talk. Before the start of an Auction, the Broker-Dealers may, in their discretion, make available to Existing Owners and Potential Owners Broker-Dealers' good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty, and Existing Owners and Potential Owners are free to use it or ignore it. If a Broker-Dealer provides Price Talk, the Broker-Dealers will make the Price Talk available to all Existing Owners and Prospective Owners. The Broker-Dealers may occasionally update and change the Price Talk based on changes in the County's or the Certificate Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the federal Reserve Board of a change in the federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with the Broker-Dealers the manner by which the Broker-Dealers will communicate Price Talk and any changes to Price Talk.

All-or-Nothing Bids. The Broker-Dealers do not accept "all-or-nothing" bids (i.e., bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid auction procedures that require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealers provide no assurance as to the outcome of any Auction. Nor do the Broker-Dealers provide any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any 2007 Series B Certificates purchased or retained may be lower than the Bidder expected. The Broker-Dealers will not agree before an Auction to buy 2007 Series B Certificates from or sell 2007 Series B Certificates to a customer after an Auction.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline (called the "Broker-Dealer Deadline") by which Bidders must submit Bids to the Broker-Dealers. The Broker-Dealer Deadline is subject to change by the Broker-Dealers. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealers may submit Bids for their own accounts at any time until the Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealers or generated by the Broker-Dealers for their own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability To Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of a 2007 Series B Certificates (a) in an Auction for the 2007 Series B Certificates, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures; or (b) outside an Auction for the 2007 Series B Certificates, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the 2007 Series B Certificates that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those 2007 Series B

Certificates in the Auction for the 2007 Series B Certificates. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the 2007 Series B Certificates all, and may not be able to sell any, of the 2007 Series B Certificates subject to such Submitted Sell Orders. As discussed above (see "Bidding by Broker-Dealer"), the Broker-Dealers may submit a Bid in an Auction for the 2007 Series B Certificates to avoid an auction failure, but they are not obligated to do so. There may not always be enough Bidders to prevent an auction failure in the absence of the Broker-Dealers Bidding in the Auction for the 2007 Series B Certificates for their own accounts or encouraging others to Bid. Therefore, auction failures are possible, especially if the County's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid. Between Auctions for the 2007 Series B Certificates, there can be no assurance that a secondary market for the 2007 Series B Certificates will develop or, if it does develop, that it will provide Existing Owners the ability to resell the 2007 Series B Certificates on the terms or at the times desired by an Existing Owner. The Broker-Dealers, in their own discretion, may decide to buy or sell the 2007 Series B Certificates in the secondary market for their own accounts from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the 2007 Series B Certificates. However, the Broker-Dealers are not obligated to make a market in the 2007 Series B Certificates and may discontinue trading in the 2007 Series B Certificates without notice for any reason at any time. Existing Owners who resell between Auctions for the 2007 Series B Certificates may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a 2007 Series B Certificate through a dealer which is not the Broker-Dealer for the 2007 Series B Certificates, such Existing Owner's ability to sell its 2007 Series B Certificates may be affected by the continued ability of its dealer to transact trades for the 2007 Series B Certificates through the Broker-Dealers.

The ability to resell the 2007 Series B Certificates will depend on various factors affecting the market for the 2007 Series B Certificates, including news relating to the County, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the 2007 Series B Certificates (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the 2007 Series B Certificates (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "—Securities and Exchange Commission Settlements" below) or press reports, financial reporting cycles and market conditions generally. Demand for the 2007 Series B Certificates may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent Under the Auction Agent Agreement or the Broker-Dealers Under the Broker-Dealer Agreements Could Impact the Ability To Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice to the County, the Trustee and the Broker-Dealers. If the Auction Agent's fees have not been paid, the Auction Agent may resign from its duties as Auction Agent by giving at least 30 days' notice to the County, the Trustee and the Broker-Dealers. The Auction Agent Agreement does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreements provide that the Broker-Dealer thereunder may resign upon five business days' notice to the Auction Agent and the County. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the 2007 Series B Certificates will be determined as described in the Trust Agreement.

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including the Broker-Dealers, that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Broker-Dealers agreed to pay a civil penalty. In addition, the Broker-Dealers, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the Broker-Dealers to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the 2007 Series B Certificates. The SEC's investigation is continuing as to other entities that participate in the auction rate securities market.

CERTIFICATE PAYMENT SCHEDULES

The following is the payment schedule for the Certificates (assuming no prepayment of Base Rental other than mandatory sinking fund prepayments).

Fiscal Year Ending June 30	Series A Principal Component	Series A Interest Component	Series B Principal Component	Series B Interest Component[1]	Total
2008	$ 1,785,000.00	$ 2,360,184.91		$1,136,581.25	$ 5,281,766.16
2009	1,560,000.00	3,361,330.00		1,321,775.00	6,243,105.00
2010	1,625,000.00	3,297,630.00		1,321,775.00	6,244,405.00
2011	1,695,000.00	3,231,230.00		1,321,775.00	6,248,005.00
2012	8,725,000.00	3,006,830.00		1,321,775.00	13,053,605.00
2013	9,105,000.00	2,630,790.00		1,321,775.00	13,057,565.00
2014	8,885,000.00	2,223,125.00		1,347,193.75	12,455,318.75
2015	9,370,000.00	1,766,750.00		1,321,775.00	12,458,525.00
2016	9,840,000.00	1,286,500.00		1,321,775.00	12,448,275.00
2017	10,335,000.00	791,500.00		1,321,775.00	12,448,275.00
2018	10,850,000.00	271,250.00		1,321,775.00	12,443,025.00
2019			$11,400,000.00	1,061,316.44	12,461,316.44
2020			11,825,000.00	658,935.74	12,483,935.74
2021			12,300,000.00	214,063.80	12,514,063.80
2022			1,825,000.00	22,356.18	1,847,356.18
Total	$73,775,000.00	$24,227,119.91	$37,350,000.00	$16,336,422.16	$151,688,542.07

(1) Assumes an interest rate of 3.500% with respect to the 2007 Series B Certificates.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental

Pursuant to the Sublease, the Corporation will lease the Leased Premises to the County. As rental for the use and occupancy of the Leased Premises, the County agrees to pay the Base Rental to the Trustee. The Base Rental payments are composed of principal and interest components represented by the Certificates. To secure the performance of its obligation to pay Base Rental with respect to the Fixed Rate Certificates, the County will deposit the Base Rental with the Trustee on or before the fifteenth day of the month preceding the date on which such Base Rental is due, for application by the Trustee in accordance with the terms of the Trust Agreement. To secure the performance of its obligation to pay Base Rental with respect to the Auction Rate Certificates, the County will make a deposit with the Trustee at closing and on the first of each month for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the prior Business Day.

The County covenants in the Sublease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Sublease in its annual budget and to make the necessary annual appropriations for all such Base Rental and Additional Rental. The Corporation, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Owners substantially all its right, title and interest in the Site Lease and the Sublease, including its rights to receive and enforce payment of the Base Rental, but excluding its rights to indemnification and to payment or reimbursement of its costs and expenses. Pursuant to the Trust Agreement, the Base Rental payments are held in trust for the benefit of the Owners and will be used for the punctual payment of the interest and principal evidenced and represented by the Certificates and will not be used for any other purpose while any of the Certificates remain Outstanding.

Except to the extent of (a) amounts held by the Trustee in the Certificate Fund or the Reserve Fund; (b) amounts received in respect of rental interruption insurance or title insurance; and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, Base Rental payments due hereunder with respect to any Leased Premises or portion thereof shall be abated during any period in which, by reason of material damage, destruction, theft, condemnation or defects in title to such Leased Premises or portion thereof, there is substantial interference with the use or right of possession by the County of such Leased Premises or portion thereof. The amount of abatement shall be such that the resulting Base Rental and Additional Rental do not exceed the fair rental value for the use and possession of such Leased Premises and the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County; provided that when determining the fair rental value of the remaining portion of the Leased Premises such determination shall be made based on the greater of the fair rental value of such portion of the Leased Premises at that time or the fair rental value such portion of the Leased Premises would have had on the Closing Date. The Trustee may require a certificate from an appropriate representative of the County to the effect that the resulting total rental does not exceed such fair rental value as elaborated in the preceding sentence. Such abatement shall continue for the period commencing with the date of such substantial interference due to damage, destruction, theft, condemnation or title defects and ending with the restoration of such Leased Premises to tenantable condition. See "RISK FACTORS—Abatement."

Should the County default under the Sublease, the Trustee, as assignee of the Corporation, may retain the Sublease and hold the County liable for each installment of Base Rental payments as it becomes due. The Trustee may also terminate the Sublease and re-let the Leased Premises. However, in no event shall Base Rental payments and Additional Rental, if any, be accelerated. Furthermore, limitations exist with respect to the use of the Leased Premises that may limit the effectiveness of remedies available to the Trustee in the event of a default. See "RISK FACTORS—Limitation on Remedies."

Under the terms of the Trust Agreement, the County and the Trustee may, without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental; and the Trustee may execute and deliver such Additional Certificates upon the satisfaction of certain terms and conditions. See "RISK FACTORS—Additional Certificates."

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

County's Obligation to Pay

General Fund. The obligation of the County to pay Base Rental payments when due is a current expense of the County, payable from the County General Fund. The full faith and credit of the County has not been pledged to the payment of the Base Rental payments.

Triple Net Lease. The Sublease is a "triple net lease"; and the County agrees that the rents will be an absolute net return to the Corporation free and clear of any expenses, charges or setoffs whatsoever.

Additional Rental. Under the Sublease, the County agrees to pay Additional Rental as provided in the Sublease, such as the costs of operating, maintaining and managing the Leased Premises, certain taxes and certain other costs related to the Leased Premises during the term of the Sublease. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease."

Reserve Fund

The Trust Agreement establishes a Reserve Fund to be initially funded with Certificate proceeds in the amount of $8,683,500.00 and the delivery to the Trustee of a Surety Bond by Ambac Assurance Corporation ("Ambac Assurance") in an amount equal to the difference between the Certificate proceeds deposited into the Reserve Fund and the Reserve Requirement. The term "Reserve Requirement" means, as of any date of calculation, the least of (a) 10% of the principal amount of the Outstanding Certificates, (b) the maximum Base Rental payable by the County in any year between such date of calculation and the expiration of the Sublease, and (c) 125% of the average annual Base Rental on the Outstanding Certificates. On the date of delivery of the Certificates, the Reserve Requirement will equal $11,112,500. Accordingly, the amount available to the Trustee to draw under the Surety Bond is equal to $2,429,000.

The Trust Agreement authorizes the County to obtain a Surety Bond in place of fully funding the Reserve Fund with cash. Ambac Assurance has agreed to issue the Surety Bond for the purpose of funding a portion of the Reserve Fund. The Certificates will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the execution and delivery of the Certificates. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest with respect to the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due with respect to the Certificates, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the County is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the County is subordinate to the County's obligations with respect to the Certificates.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trust Agreement provides that the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Base Rental on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Base Rental.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

In the event that Ambac Assurance was to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

If on any Interest Payment Date the amounts in the Certificate Fund are less than the principal and interest payments due with respect to the Outstanding Certificates on such date, then the Trustee shall transfer from the Reserve Fund for credit to the Interest Account and Principal Account of the Certificate Fund, respectively, amounts sufficient to make up such deficiencies. In the event of any such transfer, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer.

Insurance

The Sublease requires that the County maintain, or cause to be maintained, the following insurance with respect to the Leased Premises:

(a) a policy or policies of property insurance against loss or damage to the Leased Premises known as "all risk" (including earthquake and flood). Such insurance shall be maintained with respect to the Leased Premises in an amount not less than the aggregate principal amount of Certificates at such time Outstanding with respect to such Leased Premises. Such insurance may at any time include deductible clauses, on a per-loss basis in any one year, not to exceed (i) \$50,000, in the case of all risk insurance, (ii) \$200,000 in the case of flood insurance (per unit or 2% of total values per unite per occurrence, subject to a \$250,000 minimum situated within a 100 year flood plain (as defined by FEMA)), and (iii) 5% of the replacement cost of the Leased Premises in the case of earthquake insurance. However, in the case of all risk and flood insurance, if such insurance is not available from reputable insurers at a reasonable cost, the County may self-insure to the extent necessary to enable it to repair or replace the Leased Premises in accordance with the provisions of the Sublease, but the County need not self-insure against earthquake damage if earthquake insurance is not available from reputable insurers at a reasonable cost;

(b) commercial general liability coverage against claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the Leased Premises. Such insurance shall afford protection with a combined single limit of not less than $1,000,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time-to-time be recommended by the County's risk management officer or an independent insurance consultant retained by the County for that purpose; provided, however, that the County's obligations described under this clause (b) may be satisfied by self-insurance;

(c) boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Premises in an amount not less than $2,000,000 per accident;

(d) workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the County in connection with the Leased Premises and to cover full liability for compensation under any such act aforesaid; provided, however, that the County's obligations described under this clause (d) may be satisfied by self-insurance;

(e) rental interruption insurance from a provider rated at least "A" by A.M. Best & Company to cover loss, total or partial, of the use of the Leased Premises or any portion thereof as a result of any of the hazards covered by the insurance described in clause (a) above in an amount sufficient at all times to pay the total rental payable under the Sublease with respect to the Leased Premises for a period adequate to cover the period of repair or reconstruction, but in any event not less than the maximum Base Rental due under the Sublease during any 24-month period; and

(f) a CLTA policy or policies of title insurance for the Leased Premises, in an aggregate amount not less than the aggregate principal amount of the Certificates Outstanding. Each such policy of title insurance shall show title to the Leased Premises covered by such policy in the name of the Corporation or the County, subject to this Sublease and such other encumbrances as will not, in the opinion of the Corporation and the County, materially affect the use, occupancy and possession of such Leased Premises and will not result in the abatement of Base Rental payable by the County hereunder with respect to such Leased Premises.

Substitution and Release of Leased Premises

The Leased Premises may be amended, modified, released, transferred, changed or substituted by other properties, solely in the discretion of the County; provided, however, that: (a) the Certificate Insurer shall have provided its prior written consent to such amendment, modification, release, transfer, change or substitution, which such consent shall not be unreasonably withheld; (b) such amendment, modification, release, transfer, change or substitution complies with the requirements set forth in the Trust Agreement; and (c)(i) such amendment, modification, release, transfer, change or substitution does not, in the opinion of Independent Counsel, adversely affect the exclusion for federal or state income tax purposes of interest with respect to any Certificates previously executed and delivered on a tax-exempt basis; (ii) the County delivers to the Trustee a certificate of a County Representative confirming that (A) the fair rental value of the Leased Premises following such amendment, modification, release, transfer, change or substitution is at least equal to the Base Rental payable under the Sublease; and (B) the useful life of any amended, modified, transferred, changed or substituted Leased Premises equals or exceeds the remaining term of the Sublease; (iii) the County shall provide evidence that the title insurance required under the Sublease includes such amended, modified, transferred, changed or substituted Leased Premises or, prior to the release of any portion of the Leased Premises, the County shall provide evidence that the existing title insurance required under the Sublease on the remaining Leased Premises is not affected by such release; and (iv) the County has been advised by each Rating County then providing a rating or ratings on Outstanding Certificates, and which shall have received notice of such amended, modified, released, transferred, changed or substituted Leased Premises, that such amendment, modification, release, transfer, change or substitution will not, in and of itself, result in a reduction of any such ratings by such Rating County. Upon completion of the Project, the County intends to substitute the real and personal property comprising the Project for the current Leased Premises. See "THE PROJECT" herein. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Trust Agreement."

CERTIFICATE INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

The Certificate Insurer has made a commitment to issue the Certificate Insurance Policy relating to the Insured Certificates, effective as of the date of execution and delivery of the Insured Certificates. Under the terms of the Financial Guaranty Insurance Policy, the Certificate Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest with respect to the Insured Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Certificate Insurance Policy) by the County. The Certificate Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Insured Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Certificates, The Certificate Insurer will remain obligated to pay the principal of and interest on outstanding Insured Certificates on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that the Certificate Insurer elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the County). Upon payment of all such accelerated principal and interest accrued to the acceleration date, the Certificate Insurer's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on an Insured Certificate that has become Due for Payment and that is made to a holder by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

(a) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

(b) payment of any redemption, prepayment or acceleration premium; and

(c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Insured Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Certificates to be registered in the name of the Certificate Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to the Certificate Insurer.

Upon payment of the insurance benefits, the Certificate Insurer will become the owner of the Insured Certificate, appurtenant coupon, if any, or right to payment of the principal of or interest on such Insured Certificate and will be fully subrogated to the surrendering holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of the Insured Certificates at auctions or losses suffered as a result of a holder's inability to sell the Insured Certificates.

In the event that the Certificate Insurer was to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$10,391,000,000** (unaudited) and statutory capital of approximately **$6,730,000,000** (unaudited) as of **June 30, 2007.** Statutory capital consists of the Certificate Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to the Certificate Insurer.

The Certificate Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Certificate Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Certificate Insurer under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the County.

The Certificate Insurer makes no representation regarding the Insured Certificates or the advisability of investing in the Insured Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by the Certificate Insurer and presented under the heading "CERTIFICATE INSURANCE."

Available Information

The parent company of the Certificate Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of the Certificate Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Certificate Insurer. The address of the Certificate Insurer's administrative offices is 19th Floor, One State Street Plaza, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

(a) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;

(b) The Company's Current Report on Form 8-K dated and filed on April 25, 2007;

(c) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;

(d) The Company's Current Report on Form 8-K dated and filed on July 25, 2007;

(e) The Company's Current Report on Form 8-K dated and filed on August 3, 2007; and

(f) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Certificates. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Certificates and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Certificates. There can be no assurance that other risk factors will not become material in the future.

Limited Obligation

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

Abatement

Except to the extent of (a) amounts held by the Trustee in the Certificate Fund or the Reserve Fund; (b) amounts received in respect of rental interruption insurance or title insurance; and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, Base Rental payments due hereunder with respect to any Leased Premises or portion thereof shall be abated during any period in which, by reason of material damage, destruction, theft, condemnation or defects in title to such Leased Premises or portion thereof, there is substantial interference with the use or right of possession by the County of such Leased Premises or portion thereof. The amount of abatement shall be such that the resulting Base Rental and Additional Rental do not exceed fair rental value for the use and possession of such Leased Premises and the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County, provided that when determining the fair rental value of the remaining portion of the Leased Premises such determination shall be made based on the greater of the fair rental value of such portion of the Leased Premises at that time or the fair rental value such portion of the Leased Premises would have had on the Closing Date. The Trustee may require a certificate from an appropriate representative of the County to the effect that the resulting total rental does not exceed such fair rental value as elaborated in the preceding sentence. Such abatement shall continue for the period commencing with the date of such substantial interference due to damage, destruction, theft, condemnation or title defects and ending with the restoration of such Leased Premises to tenantable condition.

In the event that casualty insurance proceeds are unavailable because there is no coverage for the hazard or such proceeds are insufficient in amount to provide for complete repair or reconstruction or replacement of the Leased Premises, or in the event the Leased Premises are not repaired or replaced during the period of time that proceeds of the County's rental interruption insurance may be available in lieu of Base Rental payments (a period of approximately 24 months) and the period for which funds are available from the Reserve Fund, the Base Rental payments may be insufficient to cover payment to Owners of Certificates. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease."

Seismicity

Generally, within the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity. During the past 150 years, the Southern

California area has experienced several major and numerous minor earthquakes. A number of known fault lines cross the County. The most recent major earthquake in the Southern California area was the Northridge earthquake, which occurred on January 17, 1994 in Los Angeles County. The Northridge earthquake measured 6.5 on the Richter scale, with an epicenter approximately 75 miles west of the County. On June 28, 1992, an earthquake measuring 7.3 on the Richter scale occurred in the town of Landers in San Bernardino County, approximately 100 miles north of the County.

Risk of Uninsured Loss

The County covenants under the Sublease to cause to be maintained certain insurance policies on the Leased Premises. These insurance policies do not cover all types of risk. For instance, the County does not covenant to maintain earthquake insurance if such insurance is not available at reasonable cost from reputable insurance carriers. The County may self-insure in certain circumstances. Moreover, the insurance maintained by the County may provide for deductible amounts. The Leased Premises could be damaged or destroyed due to earthquake or other casualty for which the Leased Premises are uninsured. Under these circumstances an abatement of Base Rental could occur and could continue indefinitely. There can be no assurance that the providers of the County's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Premises will be sufficient to prepay Certificates.

Default and Limitations on Remedies

In the event of a default, there is no remedy of acceleration of the Base Rental payments due over the term of the Sublease. The County will only be liable for Base Rental payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's Base Rental payments. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease."

The remedies provided for in the Sublease include, in addition to all other remedies provided at law, (a) terminating the Sublease and reletting the Leased Premises, and (b) retaining the Sublease and holding the County liable for each installment of Base Rental payments as it becomes due.

The enforcement of any remedies provided in the Sublease and Trust Agreement may be limited by law (including limitations on a lessor's rights under real property leases and limitations on the rights of real property secured creditors) or could prove both expensive and time consuming. Although the Sublease provides that if the County defaults the Trustee may re-enter the Leased Premises and re-let them, the Leased Premises may not be easily recoverable and, even if recovered, could be of little value to others because of their specialized nature, regulatory restrictions, limitations related to maintaining tax-exempt status of interest with respect to the Certificates or other legal limitations as to the persons by whom and the circumstances under which the Leased Premises can be used. Moreover, due to the essential governmental nature and use of the Leased Premises, it is not certain whether a court would permit the exercise of a remedy removing the County from them.

The Leased Premises may be substituted as more fully described in Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Sublease."

Limitation on Sources of Revenues

There are limitations on the ability of the County to increase revenues payable to the County General Fund. The ability of the County to increase the ad valorem property taxes (which has historically been a primary source of revenues for counties in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. California voters in 1986 approved an initiative statute which attempts to limit the imposition of new or higher taxes by local agencies, including the County. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." In addition on November 5, 1996 the voters of the State approved Proposition 218, which further affects the ability of local agencies to levy and collect existing and future taxes, assessments, fees and charges. See "ARTICLE XIII C and XIII D OF THE STATE CONSTITUTION."

At the same time as limitations have been imposed on the ability of the County to raise revenues, State and federally mandated expenditures for justice, health and welfare have increased. The annual increase in mandated expenditures has exceeded the annual increase in County revenues. In the event the County's revenue sources are less than its total obligations, the County could choose, or be required by federal or State law, to fund other municipal services before Base Rental payments.

Additional Certificates

Under the terms of the Trust Agreement, the County, the Corporation and the Trustee may by execution of a Supplemental Trust Agreement, without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental; and the Trustee may execute and deliver such Additional Certificates subject to satisfying certain conditions set forth in the Trust Agreement. See Appendix C "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Trust Agreement."

Bankruptcy

The County is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the County may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the County was to become a debtor under the Bankruptcy Code, the County would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding, and an owner of a Certificate would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy might be: (a) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the County or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the County; (b) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (c) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of Owners of Certificates; and (d) the possibility of the adoption of a plan for the adjustment of the County's debt without the consent of all of the owners of Certificates, which plan may restructure, delay, compromise or reduce the amount of the claim of the Owners if the Bankruptcy Court finds that such a plan is fair and equitable. In addition, the Bankruptcy Code might invalidate any provision of the Sublease or the Certificates that makes the bankruptcy or insolvency of the County an event of default.

THE COUNTY

The County was organized in 1893 from territory in San Bernardino and San Diego Counties and encompasses 7,296 square miles. Neighboring counties include San Bernardino County to the north, State of Arizona to the east, San Diego and Imperial Counties to the south and Orange and Los Angeles Counties to the west. The County is the fourth largest by area in the State of California and stretches 185 miles from the Arizona border to within 20 miles of the Pacific Ocean. There are 24 incorporated cities in the County. According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 1.9 million as of January 1, 2006, an increase of more than 3% over January 1, 2005.

The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of Supervisors, elected by district. Members serve staggered four-year terms, and the chairman is elected by the Board members. County administration includes appointed and elected officials, boards, commissions and committees which assist the Board of Supervisors.

The County provides a wide range of services to residents, including police and fire protection, medical and health services, education, library services, judicial institutions and public assistance programs. Some municipal services are provided by the County on a contract basis to incorporated cities within its boundaries. These services are designed to allow cities to contract for municipal services such as police and fire protection without incurring the cost of creating city departments and facilities. Services are provided to the cities by the County at cost, or at the discretion of the County Board of Supervisors in certain cases, at below cost.

Three distinct geographical areas characterize the County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, which includes the San Jacinto mountains and the Cleveland National Forest, experiences the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions.

See Appendix A "INFORMATION REGARDING THE COUNTY OF RIVERSIDE—Demographic and Economic Information" attached hereto.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California. The Corporation was formed in 1983 to assist the County by providing for the acquisition and maintenance of equipment, the acquisition, construction and renovation of facilities and other improvements, and the leasing of such equipment and facilities to the County. The Corporation is governed by a Board of Directors composed of five members appointed by the County Board of Supervisors to serve one-year terms. The Board of Directors elects a President, Secretary, and Treasurer from among its members. The County's Executive Officer, Clerk of the Board of Supervisors, Treasurer-Tax Collector, Purchasing Agent and County Counsel serve as staff to the Corporation.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

On June 6, 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In May 1990, the voters through their approval of Proposition 111 amended Article XIII B. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-1979 fiscal year. Increases in appropriations by a governmental entity are also permitted (a) if financial responsibility for providing services is transferred to the governmental entity, or (b) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation; (b) the investment of tax revenues; and (c) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in May 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (a) the percentage change in California per capita personal income, or (b) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed; (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of ½ of 1% was a special tax that, under Section 53722 of the Government Code, and was held invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

Following the Guardino decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Right To Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. However, other than any impact resulting from the exercise of this initiative power, the County does not presently believe that the potential impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay Base Rental as and when due and its other obligations payable from the General Fund.

Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. Certain assessments, including assessments of landscape maintenance districts, taxes and fees of the County could be subject to this initiative power. The voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property-related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property-related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected.

Article XIII D adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas ("CSAs") and in special districts. Parcel charges in 38 of the County's 57 CSAs have been classified as fees and charges, assessments or special taxes under either Article XIII C or Article XIII D. Thirty-two CSAs require the approval of local property owners or voters for the County to continue to collect such charges. Two of the 32 CSAs which require an election to continue collecting parcel charges voted not to continue the charges and services have terminated. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay Base Rental as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (a) generate revenues exceeding the funds required to provide the property related service; (b) are used for any purpose other than those for which the fees and charges are imposed; (c) are for a service not actually used by, or immediately available to, the owner of the property in question; or (d) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will adversely affect the ability of the County to pay its outstanding obligations as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIII D, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

On September 20, 2006, an action was filed against the County challenging the validity of certain annual assessments imposed by the County. The action is entitled *Beutz v. County of Riverside* and challenges an annual assessment on certain residential property in the Wildomar area of the County within Wildomar Landscape Maintenance District 2006-1. The annual assessment is currently being levied to pay, in part, the costs of maintenance of four county parks in the Wildomar area of the County. The plaintiff in the *Beutz v. County of Riverside* action is challenging the engineer's report supporting the assessment and claiming that the challenged assessment levy is void due to procedural violations of California's Landscape and Lighting Act (California Government Code Sections 22500 et seq.) and Articles XIII C and XIII D of the California Constitution. The County disputes these allegations and is defending against the action. No trial date has been set. The County does not expect that the litigation will have a material adverse effect on the County's finances or its ability to conduct its business even if an adverse judgment were to be rendered in the action.

Implementing legislation respecting Proposition 218 may be introduced in the State legislature from time-to-time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time-to-time, other initiative measures could be adopted, further affecting revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the County.

STATE OF CALIFORNIA FINANCIAL INFORMATION

The following information concerning the State's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest due with respect to the Certificates is payable from any funds of the State.

Economic Conditions in California

Since early 2001, the State has faced severe financial challenges, challenges which may continue for several years. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, the effects of the events of September 11, rising unemployment levels and large stock market declines. The downturn resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall was attributable to a decline in personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment.

2007 Adopted Budget for the State of California

On June 30, 2006 the Governor signed the State Budget Act for Fiscal Year 2006-2007 (the "2007 State Budget"). The 2007 State Budget sharply increases funding for education, provides targeted increases in several other program areas, and prepays nearly $3 billion in budgetary debt incurred during the 2002-2003 through 2004-2005 fiscal years. The expanded commitments included in this spending plan are in striking contrast to the four previous years, when policymakers were faced with closing major budget shortfalls. This turnaround has been made possible by much stronger-than-expected revenues. As one indication of this strength, between mid-2005 and mid-2006, the revenue estimates for the 2004-2005 through 2006-2007 fiscal years rose a combined total of $17 billion, reflecting much better-than-expected performances from the personal income tax and corporation tax. The revenue improvement that occurred in Fiscal Years 2003-2004 through 2005-2006-when combined with past budget-related borrowing and various one-time and ongoing savings enacted in the Fiscal Years 2003-2004 through 2005-2006 budgets resulted in the accumulation of over $9 billion in carryover balances that were available to support spending in 2006-2007. The 2007 State Budget uses over $7 billion of these carryover balances, along with $94 billion in revenues projected in 2006-2007, to finance over $101 billion in spending during the year, 9.5% more than in 2005-2006.

The 2006-2007 spending plan includes $2.8 billion in prepayments of budgetary debt that had been incurred in prior years. About one-half of the total is related to repayment of transportation loans. The remainder is accelerated repayments of other special fund loans that had planned repayment dates in the future. These include payments toward deficit-financing bonds (Proposition 57), local government mandate claims, and settle up of prior-year Proposition 98 obligations. Taking into account these prepayments, along with the new debt created by a Proposition 98 settlement, the State's general fund will have roughly $22 billion in budgetary debt outstanding at the close of 2006-2007. The 2007 State Budget provides the full $1.4 billion annual Proposition 42 transfer of sales taxes on gasoline to fund transportation programs, and it repays $1.4 billion of past Proposition 42 loans (that is, transfers which were deferred in 2003-2004 and 2004-2005).

The State spending plan for 2006-07 includes total budget expenditures of $128.4 billion. This includes $101.6 billion from the State's general fund and $26.9 billion from special funds. The combined spending total from these funds is up $11 billion (9.5%) from 2005-2006. Spending of bond proceeds for capital outlay jumped from $5.6 billion in 2004-2005 to $11 billion in 2005-2006, before falling back to $3.6 billion in 2006-2007. Bond-fund expenditures reflect the use of bond proceeds on capital outlay projects in a given year (or, in the case of education bonds, the allocation of the bond authority to specific local projects by the State Allocation Board). The costs associated with debt service on the bonds are included in the State's general fund and special funds spending totals. The one-time jump in bond spending in 2005-2006 is primarily related to the allocation of K-12 education bonds (approved by voters in 2004) to specific projects.

Governor's Proposed 2007-2008 Budget

The Governor's budget for 2007-2008 attempts to bridge a significant shortfall in 2007-2008 through a variety of means, including a major redirection of transportation funds, significant reductions in social services, and a substantial increase in tribal gambling revenues. The Governor's January 10, 2007 estimate forecasts a $2.1 billion positive reserve. However, the nonpartisan California Legislative Analyst's Office estimates that the Governor's budget plan would result in 2007-08 expenditures exceeding revenues by $2.6 billion, resulting in a year-end deficit of $726 million. Moreover, the Legislative Analyst's Office projects that the state would face operating deficits of $3.4 billion in 2008-2009, $2.5 billion in 2009-2010, and $1.4 billion in 2010-2011.

The Governor revised the budget in May of 2007 (the "May Revision"). The May Revision continues the Governor's commitment to restraining the growth in spending, pre-paying debt, eliminating the net operating deficit, not raising taxes and maintaining an adequate reserve. As such, the Governor's May Revision includes several measures to further reduce spending, generate additional revenues from publicly-owned assets and provide a reserve of $2.2 billion.

While the net operating deficit of $1.4 billion is not eliminated entirely even with these changes, this reflects major progress as compared to the $4.4 billion that was anticipated for 2007-2008 at the time the Governor signed the 2006 Budget Act and reflects a reduction of 92% from the projected deficit when the Governor took office. As of the date hereof, the 2007-2008 budget has not yet been adopted by the Legislature.

Triple Flip

The County anticipates that property tax revenue could be an increasingly significant portion of County revenues, and that sales tax revenue could be an increasingly smaller portion of County revenues, at least over the next few fiscal years, because of legislation commonly referred to as the "Triple Flip," which was approved by the voters on March 2, 2004 as part of a bond initiative formally known as the "California Economic Recovery Act" ("Proposition 57"). This act authorized the issuance of $15 billion in bonds (the "Economic Recovery Bonds") to finance State budget deficits. The Economic Recovery Bonds are payable from a fund established by the redirection of tax revenues through the Triple Flip. In 2004, the State sold $11.3 billion of the $15 billion authorization, with the remaining authorization being held in reserve to assist in defraying any future State budget deficits. Under the "Triple Flip" one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact on local governments of the sales tax revenue redirection, the legislation provides for property taxes in the "educational revenue augmentation funds" (ERAFs) to be redirected to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the Economic Recovery Bonds are repaid. The County does not expect that the transfers authorized under the Triple Flip will have a material adverse effect on the County's ability to pay Base Rental payments under the Sublease.

Future State Budgets

The County cannot predict what actions will be taken in future years by the State Legislature and the Governor to address future State budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the County has no control. To the extent that the State budget process results in reduced revenues to the County, the County will be required to make adjustments to its budget. Decrease in State assistance may have an adverse impact on the County's ability to pay.

Additional information concerning the State's Budget and financial condition may be found on the website of the State of California Department of Finance at http://www.dof.ca.gov, and of the State Legislative Analyst's Office at http://www.lao.ca.gov; however, information on these websites is not incorporated into this Official Statement.

LITIGATION

No litigation is pending or threatened concerning the validity of the Certificates, the Site Lease, the Sublease, the Assignment Agreement or the Trust Agreement, or contesting the County's ability to appropriate or make the Base Rental, and an opinion of the Office of County Counsel to that effect will be furnished to the Underwriter at the time of the execution and delivery of the Certificates.

RATINGS

The County expects that the Insured Certificates will be rated "Aaa" by Moody's Investors Service ("Moody's"), "AAA" by Standard & Poor's, A Division of The McGraw-Hill Companies, Inc. ("S&P") and "AAA" by Fitch, Inc., a New York corporation ("Fitch") with the understanding that upon delivery of the Insured Certificates, the Certificate Insurance Policy will be issued by the Certificate Insurer. Moody's, S&P and Fitch have also assigned underlying ratings of "A2," "AA-" and "AA-," respectively, to the Certificates. The above ratings reflect only the views of such rating agencies. Any explanation of the significance of such ratings may only be obtained from such rating agencies. The County has furnished to the rating agencies certain information and materials not included in this Official Statement. Generally, the rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. There is no assurance that such ratings will continue for any given period of time or that they may not be lowered, suspended or withdrawn entirely by a rating agency if in the judgment of such rating agency circumstances so warrant. Any such downward change in or withdrawal of any such rating may have an adverse effect on the market price of the Certificates.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Certificates for interest with respect thereto to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of issue of the Certificates. Pursuant to the Trust Agreement and the Tax Certificate the County has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest with respect to the Certificates from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the County has made certain representations and certifications in the Trust Agreement and the Tax Certificate. Special Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the County described above, interest with respect to the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest with respect to the Certificates is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Special Counsel is also of the opinion that interest with respect to the Certificates is exempt from California personal income taxes. Special Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Certificates or as to the taxability of the Certificates or the income therefrom under the laws of any state other than California.

Original Issue Discount with Respect to the 2007 Series A Certificates

Special Counsel is further of the opinion that the difference between the principal amount of the 2007 Series A Certificates maturing November 1, 2012 in the aggregate principal amount of $5,580,000 and bearing interest at a rate of 3.850% (the "Discount Certificates") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Certificates of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest with respect to the Certificates. Further, such original issue discount accrues on a constant interest rate basis over the term of each Discount Certificate and the basis of each Discount Certificate acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Certificates, even though there will not be a corresponding cash payment. Owners of the Discount Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Certificates.

Original Issue Premium with Respect to the 2007 Series A Certificates

The 2007 Series A Certificates maturing on November 1, 2007 through November 1, 2017 except for the 2007 Series A Certificates maturing on November 1, 2012 in the aggregate principal amount of $5,580,000 and bearing interest at a rate of 3.850% (collectively, the "Premium Certificates") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Certificate in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined on a constant interest rate basis over the term of each Premium Certificate based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a Premium Certificate, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Certificate annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Certificates. Owners of the Premium Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Certificates.

Ancillary Tax Matters

Ownership of the Certificates may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United

States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Certificates.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Certificates is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest with respect to the Certificates may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Counsel is not rendering any opinion as to any federal tax matters other than those described under the caption "—Tax Matters." Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Certificates, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest with respect to the Certificates for federal or state income tax purposes, and thus on the value or marketability of the Certificates. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest with respect to the Certificates from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Certificates may occur. Prospective purchasers of the Certificates should consult their own tax advisers regarding such matters.

On May 21, 2007, the U.S. Supreme Court agreed to hear *Davis v. Kentucky Dep't Of Revenue of The Finance and Admin. Cabinet*, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of the State of California currently result in such differing treatment, by exempting interest on obligations of California and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states or their subdivisions or instrumentalities.

Special Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Certificates may affect the tax status of interest with respect to the Certificates. Special Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the interest thereon, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

FINANCIAL ADVISOR

RBC Capital Markets, Los Angeles, California, has served as the Financial Advisor to the County in connection execution and delivery of the Certificates. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement.

UNDERWRITING

The Certificates are being purchased by Lehman Brothers, as representative of the underwriters (collectively, the "Underwriters") pursuant to two separate Purchase Contracts with the County (the "Purchase Contracts"). The Underwriters have agreed, subject to certain conditions, to purchase the 2007 Series A Certificates at a purchase price equal to $76,643,758.78 (representing the par amount of the 2007 Series A Certificates, plus a net original issue premium of $3,271,570.45, less an Underwriters' discount of $402,811.67). The Underwriters have agreed, subject to certain conditions, to purchase the 2007 Series B Certificates at a purchase price equal to $37,256,625.00 (representing the par amount of the 2007 Series B Certificates, minus an Underwriters' discount of $93,375.00). The Purchase Contracts relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contracts, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time-to-time by the Underwriters.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by Vavrinek, Trine, Day & Co., LLP, independent certified public accountants, as stated in their report appearing in Appendix B. Vavrinek, Trine, Day & Co., LLP, has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek, Trine, Day & Co., LLP, with respect to any event subsequent to its report dated December 15, 2006. See Appendix B "COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR THE FISCAL YEAR ENDED JUNE 30, 2006" attached hereto.

CONTINUING DISCLOSURE

The County has covenanted for the benefit of the Owners and beneficial owners of the Certificates to provide certain annual financial information and operating data relating to the County by not later than February 15 of each year (the "Annual Report"), commencing with the report for the County's June 30, 2006 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with the State Depository, if any. Any notice of material events will be filed by the County with the Municipal Securities Rulemaking board and with the State Depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth under the caption Appendix F "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The County has not failed to comply with any prior such undertaking under the Rule.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinion of Nixon Peabody LLP, Los Angeles, California, Special Counsel. The opinion of Special

Counsel will be delivered with the Certificates in substantially the form set forth in Appendix E hereto. Certain legal matters will be passes upon for the Underwriter by its counsel, Kutak Rock LLP, Los Angeles, California, and for the County by County Counsel.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof, which do not purport to be complete or definite, and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Site Lease, Sublease, the Assignment Agreements and the Trust Agreement are available upon request from the County of Riverside, County Executive Office, 4^{th} Floor, 4080 Lemon Street, Riverside, California 92501, Attention: County Finance Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF RIVERSIDE

By /s/ Larry Parrish
County Executive Officer

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APPENDIX A

INFORMATION REGARDING THE COUNTY OF RIVERSIDE

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APPENDIX A

INFORMATION REGARDING THE COUNTY OF RIVERSIDE

GENERAL INFORMATION

Set forth below is certain information with respect to the County. Such information was prepared by the County except as otherwise indicated.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 1,953,330 as of January 1, 2006, reflecting a 3.4% increase over January 1, 2005.

The largest cities in the County are the cities of Riverside, Moreno Valley, Corona, Hemet, Indio, Temecula and Murrieta. The areas of most rapid population growth continue to be those more populated and industrialized cities in the western and central regions of the County and the southwestern unincorporated region of the County between Sun City and Temecula.

The following table sets forth annual population figures, as of January 1, for cities located within the County for each of the years listed:

COUNTY OF RIVERSIDE
POPULATION OF CITIES WITHIN THE COUNTY
(As of January 1)

CITY	1990	2000	2004	2005	2006
Banning	20,570	23,562	27,667	28,130	28,128
Beaumont	9,685	11,384	16,631	19,105	23,145
Blythe	8,428	12,155	22,197	22,089	22,179
Calimesa	-	7,139	7,477	7,482	7,415
Canyon Lake	-	9,952	10,847	10,981	10,939
Cathedral City	30,085	42,647	49,447	50,957	51,081
Coachella	16,896	22,724	28,144	30,964	35,207
Corona	76,095	124,966	144,254	144,992	144,661
Desert Hot Springs	11,668	16,582	18,000	19,507	22,011
Hemet	36,094	58,812	64,880	66,873	69,544
Indian Wells	2,647	3,816	4,512	4,810	4,865
Indio	36,793	49,116	60,167	66,539	71,654
Lake Elsinore	18,285	28,928	35,983	38,289	40,985
La Quinta	11,215	23,694	33,099	36,377	38,340
Moreno Valley	118,779	142,381	157,842	166,385	174,565
Murrieta	-	44,282	79,037	85,648	92,933
Norco	23,302	24,157	25,859	26,846	27,263
Palm Desert	23,252	41,155	45,604	49,595	49,539
Palm Springs	40,181	42,807	45,033	46,000	46,437
Perris	21,460	36,189	42,043	44,880	47,139
Rancho Mirage	9,778	13,249	15,787	16,520	16,672
Riverside	226,505	255,166	281,775	287,321	287,820
San Jacinto	16,210	23,779	27,194	28,618	31,066
Temecula	27,099	57,716	78,831	81,921	93,923
TOTALS					
Incorporated	785,027	1,116,358	1,322,310	1,380,829	1,437,511
Unincorporated	385,386	429,029	485,314	507,482	515,819
County-Wide	1,170,413	1,545,387	1,807,624	1,888,311	1,953,330
California	29,473,000	33,871,648	36,271,091	36,810,358	37,172,015

Source: U.S. Census Bureau, except that 2004, 2005 and 2006 data is from the State Department of Finance, Demographic Research Unit (with 2000 DRU Benchmark).

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other than labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County and the State for the period 2001 through 2006.

RIVERSIDE COUNTY AND CALIFORNIA
TOTAL EFFECTIVE BUYING INCOME,
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME AND
PERCENT OF HOUSEHOLDS WITH INCOMES OVER $50,000[(1)]

	Total Effective Buying Income[(2)]	Median Household Effective Buying Income	Percent of Households with Income over $50,000
2001			
Riverside County	$ 25,144,120	$39,293	38.1%
California	$652,190,282	$44,464	44.3%
2002			
Riverside County	$ 23,617,301	$37,480	31.9%
California	$650,521,407	$43,532	41.9%
2003			
Riverside County	$ 25,180,040	$38,691	34.8%
California	$647,879,427	$42,484	40.5%
2004			
Riverside County	$ 27,623,743	$39,321	36.0%
California	$674,721,020	$42,924	41.2%
2005			
Riverside County	$ 29,468,208	$40,275	37.1%
California	$705,108,410	$43,915	42.5%
2006			
Riverside County	$ 32,004,418	$41,326	38.9%
California	$720,799,048	$44,681	43.7%

(1) Estimated.
(2) Dollars in thousands.

Source: "Survey of Buying Power," Sales & Marketing Management Magazine, 2001, 2002, 2003 and 2004 and 2005, and Demographics USA, Trade Dimensions for 2006.

INDUSTRY AND EMPLOYMENT

The County is a part of the Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing commercial and service sector employment, as reflected in the following table.

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA
ANNUAL AVERAGE EMPLOYMENT[(1)]
(IN THOUSANDS)

INDUSTRY	2002	2003	2004	2005	2006
Agriculture	20.3	20.3	18.7	18.3	17.2
Construction	90.9	99.0	111.8	123.3	129.5
Finance Activities	39.5	42.6	45.7	49.0	51.8
Government	212.7	211.6	212.5	220.4	224.2
Manufacturing:	115.4	116.1	120.1	121.0	124.0
Nondurables	33.4	33.7	34.6	35.0	36.4
Durables	82.0	82.4	85.5	86.1	87.6
Natural Resources and Mining	1.2	1.2	1.2	1.4	1.4
Retail Trade	137.5	142.7	153.8	165.7	171.5
Professional, Educational and other Services	364.5	378.6	399.9	416.5	436.2
Transportation, Warehousing and Utilities	46.8	50.1	55.5	60.2	63.8
Wholesale Trade	41.9	43.5	45.6	49.9	53.8
Information, Publishing and Telecommunications	14.1	13.9	14.0	14.5	15.2
Total, All Industries	1,084.8	1,119.4	1,178.7	1,240.3	1,288.4

Note: [(1)]The employment figures by Industry which are shown above are not directly comparable to the "Total, All Industries" employment figures due to rounded data.

Source: State Employment Development Department, Labor Market Information Division.

The following table sets forth the major employers located in the County as of 2006:

COUNTY OF RIVERSIDE
CERTAIN MAJOR EMPLOYERS[1]
(2006)

Company Name	**Product/Service**	**No. of Local Employees[2]**
The County of Riverside	County Government	18,291
March Air Reserve Base	Government/Military	8,750
University of California, Riverside	College/University	6,657
Stater Brothers Markets	Grocery Retailer	6,125
Riverside Unified School District	Education	5,099
Pechanga Resort & Casino	Casino/Resort	4,800
Guidant Corporation (now Abbott Labs)	Medical Device Manufacturer	4,500
Riverside Community College District	Higher Education	3,753
Kaiser Permanente Riverside Medical Center	Health Care	3,200
Morongo Casino, Resort & Spa	Casino/Resort	3,000
Southern California Edison	Electric Utility	2,804

(1) Certain major employers in the County may have been excluded because of the data collection methodology used by The Business Press.
(2) Includes employees within the County; includes, under certain circumstances, temporary, seasonal and per diem employees.

Source: The Business Press 2007 Book of Lists

Unemployment statistics for the County, the State and the United States are presented in the following table.

COUNTY OF RIVERSIDE
COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA

	2001	2002	2003	2004	2005	2006
County[(1)]	5.5%	6.4%	6.3%	5.7%	5.1%	5.0%
California[(1)]	5.4	6.7	6.8	6.2	5.4	4.9%
United States	4.8	5.9	6.0	5.5	5.1	4.6%

(1) Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

Source: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics

Commercial Activity

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are nine regional shopping malls in the County: Riverside Plaza, Galleria at Tyler (Riverside), Palm Springs Mall, Desert Fashion Mall, Indio Fashion Mall, Hemet Valley Mall, Palm Desert Town Center, Moreno Valley Mall at Town gate and Temecula Promenade Mall. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

The following table sets forth taxable transactions in the County for the years 2001 through 2005, and the first quarter of the 2006 calendar year:

COUNTY OF RIVERSIDE
TAXABLE SALES TRANSACTIONS
(IN THOUSANDS)

	2001	2002	2003	2004	2005	2006*
Apparel Stores	$ 565,295	$ 610,388	$ 746,015	$ 867,276	$ 990,129	$ 238,066
General Merchandise Stores	2,098,746	2,237,605	2,427,411	2,756,019	3,021,908	746,773
Drug Stores	194,717	221,441	244,560	270,316	282,566	72,173
Food Stores	930,232	967,171	1,028,392	1,079,972	1,197,438	307,944
Packaged Liquor Stores	56,250	58,459	61,514	66,728	74,828	18,890
Eating and Drinking Places	1,465,467	1,559,215	1,713,632	1,940,610	2,157,801	610,257
Home Furnishing and Appliances	526,083	594,049	691,051	862,551	964,629	243,900
Building Materials & Farm Implements	1,591,275	1,581,792	1,868,995	2,476,092	2,756,280	686,370
Auto Dealers Supplies	3,141,484	3,314,133	3,662,151	4,179,940	4,474,566	1,070,888
Service Stations	1,223,753	1,249,646	1,536,240	1,855,263	2,277,082	598,886
Other Retail Stores	1,379,979	1,856,834	2,050,991	2,427,910	2,641,985	684,037
Retail Stores Total	$13,173,281	$14,250,733	$16,030,952	$18,715,949	$20,839,212	5,278,184
All Other Outlets	5,058,274	5,248,261	5,678,183	6,521,199	7,417,279	1,604,705
Total All Outlets	$18,231,555	$19,498,994	$21,709,135	$25,237,148	$28,256,491	7,190,512

*Note: Reflects Taxable Sales Transactions for the period January 1, 2006 through March 31, 2006.
Source: California State Board of Equalization, Research and Statistics Division.

Building and Real Estate Activity

The two tables that follow provide a five-year summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) since 2002.

COUNTY OF RIVERSIDE
BUILDING PERMIT VALUATIONS[1]
(IN THOUSANDS)

	2002	2003	2004	2005	2006
RESIDENTIAL					
New Single-Family	$3,670,371.4	$4,665,678.0	$5,997,514.0	$6,243,790.0	$4,412,255.1
New Multi-Family	165,413.0	406,483.0	404,616.0	407,429.0	431,580.9
Alterations and Adjustments	87,842.9	106,855.0	135,178.0	164,312.0	158,099.4
Total Residential	$3,923,627.4	$5,179,016.0	$6,537,308.0	$6,815,531.0	$5,001,935.4
NON-RESIDENTIAL					
New Commercial	$ 297,963.6	$ 360,709.0	$ 580,058.0	$ 552,665.0	$ 648,065.7
New Industry	80,881.6	112,707.0	203,311.0	120,366.0	288,352.6
New Other[1]	187,510.6	261,795.0	334,002.0	344,702.0	290,006.3
Alterations & Adjustments	174,785.7	173,166.0	222,496.0	274,339.0	303408.9
Total Nonresidential	$ 741,141.5	$ 908,377.0	$1,339,867.0	$1,292,072.0	$1,529,833.4
TOTAL ALL BUILDING	$4,664,768.8	$6,087,393.0	$7,877,175.0	$8,107,603.0	$6,531,768.9

(1) Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and no-residential alterations and additions.

Source: Construction Industry Research Board

COUNTY OF RIVERSIDE
NUMBER OF NEW DWELLING UNITS

	2002	2003	2004	2005	2006
Single Family	20,591	25,137	29,478	29,994	20,725
Multi-Family	2,073	5,224	4,748	4,140	4,521
TOTAL	22,664	30,361	34,226	34,134	25,246

Source: Construction Industry Research Board

Agriculture

Agriculture remains a leading source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, dates, lemons and avocados.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The value of agricultural production in the County for 2002 through 2006 is presented in the following table.

COUNTY OF RIVERSIDE

Value of Agricultural Production

	2002	2003	2004	2005	2006
Citrus Fruits	$ 95,402,300	$ 84,900,100	$ 123,574,100	$ 138,244,700	$ 107,897,000
Trees and Vines	183,138,900	216,566,200	211,936,500	188,553,200	191,321,200
Vegetables, Melons, Miscellaneous	215,412,800	179,001,900	174,866,300	261,019,500	213,643,300
Field and Seed Crops	71,960,400	73,692,000	75,219,000	77,687,300	68,611,700
Nursery	183,073,600	205,846,300	211,271,200	229,210,200	270,992,800
Apiculture	2,803,800	3,520,600	2,951,300	2,736,800	3,554,300
Aquaculture Products	15,757,600	15,931,600	15,579,100	13,367,300	13,367,300
Total Crop Valuation	$ 767,549,400	$ 779,458,700	$ 815,397,500	$ 910,819,000	$ 869,387,600
Livestock and Poultry Valuation	295,928,700	287,908,600	316,207,700	257,852,100	$234,903,400
Grand Total	$1,063,478,300	$1,067,367,300	$1,131,605,200	$1,168,671,100	1,104,291,000

Source: Riverside County Agricultural Commissioner

Transportation

Easy access to job opportunities in the County and nearby Los Angeles, Orange and San Diego Counties is important to the County's employment picture. Several major freeways and highways provide access between the County and all parts of Southern California. The Riverside Freeway (State Route 91) extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses the width of the County, the western-most portion of which links up with major cities and freeways in the eastern part of Los Angeles County and the southern part of San Bernardino County. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. The Moreno Valley Freeway (State Route 60) provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Currently, Metro link provides commuter rail service to Los Angeles and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with a stop in Indio. Freight service to major west coast and national markets is provided by two transcontinental railroads -- (I) Union Pacific Railroad and (ii) the Burlington Northern and Santa Fe Railway Company. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. There are also four municipal transit operators in the western County providing services within the cities of Banning, Beaumont, Corona and Riverside. The Sun Line Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The Palo Verde Valley Transit Authority provided service in the far eastern portion of the County (City of Blythe and surrounding communities).

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by the Los Angeles Department of Airports. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Force Base, which converted from an active duty base to a reserve-only base on April 1, 1996. Plans for joint military and civilian use of the base thereafter are presently being formulated by the March AFB Joint Powers Authority, comprised of the County and the Cities of Riverside, Moreno Valley and Perris.

Education

There are four elementary school districts, one high school district, eighteen unified (K-12) school districts and four community college districts in the County. Ninety-five percent of all K-12 students attend schools in the unified school districts. The three largest unified districts are Riverside Unified School District, Moreno Valley Unified School District and Corona-Norco Unified School District.

There are seven two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also three universities located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist University.

Environmental Control Services

Water Supply. The County obtains a large part of its water supply from groundwater sources, with certain areas of the County, such as the City of Riverside, relying almost entirely on groundwater. As in most areas of Southern California, this groundwater source is not sufficient to meet countywide demand and the County's water supply is supplemented by imported water. At the present time, imported water is provided by Metropolitan Water District from the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. In the Southwest area of the County, 80% of the water supply is imported.

At the regional and local level, there are several water districts that were formed for the primary purpose of supplying supplemental water to the cities and agencies within their areas. The Coachella Valley Water District, the Western Municipal Water District and the Eastern Municipal Water District are the largest of these water districts in terms of area served. The County is also served by the San Gorgonian Pass Water Agency, Desert Water Agency and Palo Verde Irrigation District.

The uncertainty associated with the long-term availability of imported water from the Colorado River or the State Water Project is a concern of local and regional water agencies in southern California. Long-term water supply will be addressed in the next few years with the CalFed process and approval of the Quantification Settlement Agreement, and water districts' efforts toward the following: expanded water conservation and recycling; conjunctive use of local basins to store imported water; management plans to protect local groundwater; desalination of brackish groundwater; and improved coordination and joint planning with Metropolitan Water District available imported water supplies.

On July 19, 2007, the Governor of the State declared a state of emergency for the County, citing drought conditions that have reduced water supplies and caused some $4 million in crop loses. It is the second such declaration in what has been a very dry year for most of California. A growing number cities and counties in California are asking residents to reduce their water use this summer. The emergency order directs state agencies to help the County's water agencies drill new water wells or modify existing wells. The record low rainfall this year has left groundwater supplies low, according to the Association of California Water Agencies. The Governor is currently promoting a $5.9 billion bond proposal that would partially fund the building of two dams, a canal to help route fresh water around the Sacramento-San Joaquin Delta and various conservation programs. The Governor also has plans to begin negotiations with lawmakers this summer on a water package.

The Board of Supervisors declared a local emergency July 17, 2007. According to the declaration, the last 12 months have produced the lowest precipitation on record for the County. There can be no assurance of the impact that persistent drought conditions may have on the County's revenues and its ability to make Base Rental payments pursuant to the Sublease.

Flood Control. Primary responsibility for planning and construction of flood control and drainage systems within the County is provided by the Riverside County Flood Control and Water Conservation District and the Coachella Valley Storm Water Unit.

Sewage. There are 18 wastewater treatment agencies in the County's Santa Ana River region and nine in the County's Colorado River Basin region. Most residents in the rural areas of the County rely upon septic tanks and leach fields as an environmentally acceptable method of sewage disposal.

FINANCIAL INFORMATION

Budgetary Process and Budget

The County operates on an annual budget cycle. Under State law, the County must adopt a proposed budget by June 30 and a final budget by October 2, which must be balanced. Subsequent to the adoption of the final budget, the County will make adjustments during the course of the Fiscal Year to reflect revenues, as realized, and any changes on expenditure requirements. For example, in recent years, many counties have adopted final budgets in advance of the State budget and made adjustments, if required, upon the passage of the State budget. The County conducts a quarterly review, with major adjustments generally addressed in a mid year budget report.

Fiscal Year 2006-2007 Final Budget

General

The County adopted its Fiscal Year 2006-07 Final Budget (the "Final Budget") on June 27, 2006. The Final Budget approved total General Fund expenditures of $1.9 billion. Such expenditures are for primary County services including public protection, health and sanitation and public assistance. These three areas comprise approximately 88% of the County's total expenditures.

The County relies significantly upon State and Federal payments for reimbursement of various costs including certain mandated programs. For Fiscal Year 2006-07, approximately 30% of the County's General Fund budget consists of payments from the State and 19% consists of payments from the Federal government. The portion of the County's revenue that is not dependent upon State, Federal or other restricted sources is considered to be "discretionary." Approximately 28% of the County's General Fund Budget consists of wholly discretionary revenue. The County uses the discretionary portion of General Fund revenues to match, if necessary, external sources of revenue and to fund the cost of general government services, including the costs of public protection not funded by trial court funding from the State or moneys from the Public Safety Sales Tax (Proposition 172).

Proposition 172 was approved by the voters of California, permanently extending a 1/2 cent sales tax for public safety statewide. Sales tax receipts for the County from this 1/2 cent levy were $85.6 million in Fiscal Year 2000-01, $81.7 million in Fiscal Year 2001-02, $89.9 million in Fiscal Year 2002-03, $101.5 million in Fiscal Year 2003-04, $116.0 million in Fiscal Year 2004-05, $135.7 million in Fiscal Year 2005-06. Public safety sales tax receipts for the County are estimated at $144.3 million in Fiscal Year 2006-07.

On May 1, 2007, the County Executive Office released the Third Quarter Budget Report, which reported that discretionary revenues are projected to exceed mid-year estimates by $4.7 million and budgeted estimates by $42.3 million. It was also reported that the projected growth in discretionary revenue for Fiscal Year 2007-08 would be sufficient to meet the expected Net County Cost demands for the Fiscal Year 2007-08 budget. Included in the report were additional demands on the County's Contingency Fund reducing the fund's balance to $40.5 million.

Fiscal Year 2006-07 State Budget. On June 30, 2006 the Governor signed the State Budget Act for Fiscal Year 2006-07 (the "2007 State Budget"). The 2007 State Budget sharply increases funding for education, provides targeted increases in several other program areas, and prepays nearly $3 billion in budgetary debt incurred during the 2002-03 through 2004-05 fiscal years. The expanded commitments included in this spending plan are in striking contrast to the four previous years, when policymakers were faced with closing major budget shortfalls.

Fiscal Year 2007-08 Final Budget

Fiscal Year 2007-08 County Budget. The County adopted its Fiscal Year 2007-08 Final Budget on June 26, 2007. This budget approved total General Fund appropriations of $2.5 billion. Such appropriations are for primary County services including public protection, health and sanitation, and public assistance. These three areas comprise approximately 86% of the County's total anticipated General Fund expenditures.

The County relies significantly upon State and Federal payments for reimbursement of various costs including certain mandated programs. For Fiscal Year 2007-08, approximately 37% of the County's General Fund revenue consists of payments from the State and 17% consists of payments from the Federal government. The portion of the County's revenue that is not dependent upon State, Federal or other restricted sources is considered to be "discretionary." Approximately 43% of the County's General Fund revenue consists of wholly discretionary revenue. The County uses the discretionary portion of General Fund revenue to match, if necessary, external sources of revenue and to fund the cost of general government services, including the costs of public protection not funded by trial court funding from the State of California or moneys from the Public Safety Sales Tax (Proposition 172).

Proposition 172 was approved by the voters of California, permanently extending a 1/2 cent sales tax for public safety statewide. Sales tax receipts for the County from this 1/2 cent levy have increased an average of 8% per year, for the last five years, and are estimated to reach $160.1 million in fiscal year 2007-08. Sales tax receipts for the County are estimated at $42.7 million in fiscal year 2007-08.

As of June 30, 2007, fund balance for the General Fund was $424.3 million or 17% of the total General Fund expenditures. This amount includes $90 million of reserved fund balance and $334.3 million of designated fund balance.

Fiscal Year 2007-08 State Budget. The Governor's proposed Fiscal Year 2007-08 Budget includes no new direct cuts to the County's General Fund revenue. While it is not possible to determine what impact the final State budget will have on the County's budget, the County anticipates having approximately $110 million in its Reserve For Economic Uncertainty to fund any unanticipated State funding reductions. The County is currently analyzing the Governor's proposed budget in an effort to quantify its effects upon the County. For a discussion of recent and proposed State budgets, see "STATE OF CALIFORNIA FINANCIAL INFORMATION."

Final Budget Comparison. The table below compares the final budgets for each of the last five fiscal years as initially adopted by the Board of Supervisors. During the course of each fiscal year, the final budget is amended to reflect actual receipts and expenditures.

COUNTY OF RIVERSIDE
FINAL GENERAL FUND BUDGETS
FISCAL YEARS 2003-04 AND 2004-05, 2005-06, 2006-07 AND 2007-08
(IN MILLIONS)

	Final 2003-04 Budget	Final 2004-05 Budget	Final 2005-06 Budget	Final 2006-07 Budget	Final 2007-08 Budget
REQUIREMENTS					
General Government	$ 122.4[2]	$ 143.9	$ 175.5	$ 217.58	$ 279.30
Public Protection	673.9	751.7	815.5	947.66	1,032.48
Public Ways and Facilities			4.5	6.62	6.79
Health and Sanitation	362.0	392.9	394.3	381.17	410.68
Public Assistance	556.0	575.5	640.7	663.05	721.38
Education	.3	.3	.3	0.39	0.49
Recreation and Cultural	.2	.2	.2	0.31	0.29
Debt Retirement-Capital Leases	48.6	61.3	34.9[5]	10.87	14.82
Contingencies	13.2	16.5	20.0	32.08	32.15
Increase Reserves	26.2	15.2	23.8	6.15	8.92
Total Requirements	$1,802.8	$1,957.5	$ 2,109.7	$ 2,265.88	$ 2,507.30
AVAILABLE FUNDS					
Beginning Unrestricted Fund Balance	$ 63.0	$ 59.3[4]	$ 62.1[4]	$ 22.66	$ 33.43
Estimated Revenues:					
Property Taxes	122.6[3]	118.8	165.6	214.16	262.61
Other Taxes	36.2	41.3	58.6	77.54	71.06
Licenses, Permits and Franchises	20.3	23.9	23.1	29.71	31.63
Fines, Forfeitures and Penalties	39.7	46.2	46.1	48.26	51.99
Use of Money and Properties	8.0	15.2	24.3	53.51	53.16
Aid from Other Governmental Agencies:					
State	642.1	681.3	755.1	842.83	938.46
Federal	378.6	380.2	418.9	415.25	444.70
Charges for Current Services	296.0	336.3	361.0	424.61	462.26
Other Revenues[1]	196.3	255.0	194.9[5]	137.33	158.01
Total Available Funds	$1,802.8	$1,957.5	$2,109.7	$2,265.86	$2,507.30

Source: County Auditor-Controller
(1) Includes payments and reimbursements for programs which fund disproportionate share hospitals (DSB and SB 1255).
(2) Variances between Fiscal Years are the result of reclassification of certain subcategories.
(3) Variances between Fiscal Years are due to a reporting change in Property Tax Revenues.
(4) Includes reserves used.
(5) Variances between Fiscal Years are due to a reclassification of CORAL fund.

Riverside County Pooled Investment Fund

The following information concerning the Riverside County Pooled Investment Fund has been provided by the Riverside County Treasurer-Tax Collector (the "Treasurer") and has not been confirmed or verified by the District or the Underwriters. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The County Treasurer maintains one Pooled Investment Fund (the "PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of June 29, 2007, the portfolio assets comprising the PIF had a market value of $4,752,010,568.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. On June 30, 2002, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory" vs. "discretionary" depositors. Collectively, these mandatory deposits constituted approximately 86% of the funds on deposit in the County Treasury, while approximately 14% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions, with the prior consent of the Board and the County Treasurer, to participate in the County's PIF, none have been authorized entry, nor are any pending consideration. The desire of the County is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the County Treasurer's 2007 Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss.

The investments in the Pooled Investment Fund as of June 29, 2007, were as follows:

	Market Value	% of Pool
Federal Agency Securities	$ 2,802,711,103	58.98%
Cash Equivalents & Money Market Funds	252,000,000	5.30
Commercial Paper	668,892,334	14.08
Negotiable Certificates of Deposit	700,005,131	14.73
Medium Tem Notes	284,051,238	5.98
Municipal Bonds	18,655,762	0.39
Certificates of Deposit(1)	20,000,000	0.42
Local Agency Obligations (2)	5,695,000	0.12
Total	$ 4,752,010,568	100.00%
Weighted Average Yield:	5.17%	
Weighted Average Maturity:	1.06 years	

(1) Not rated; all other investments are government securities or rated investments.

(2) Represents Local Agency Obligations issued by the Riverside District Court Financing Corporation and March Joint Powers Redevelopment Agency.

As of June 29, 2007, the market value of the PIF was 99.89% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Sections 53844 requires that the investment income be credited to the specific fund in which the investment was made.

The Board has established an "Investment Oversight Committee" in compliance with California Government Code Section 27131. Currently, the Committee is composed of the County Finance Director, the County Treasurer-Tax Collector, the County Superintendent of Schools, a school district representative and a public member at large. The purpose of the committee is to review the prudence of the County's investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board. This committee was reorganized to conform to new State requirements requiring the County to have a local oversight committee. The committee is utilized by the County to manage, audit, and safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of "AAA/MR1" from Moody's Investors Service and "AAA/V1+" rating from Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

Ad Valorem Property Taxes

General. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate assessment rolls. The "secured roll" is that assessment roll containing locally assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of growth in situs assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional voter approved debt service and fixed charge assessments on behalf of any taxing agency and special districts within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. A ten dollar cost also applies to all delinquent second installments. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, the ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one half percent per month starting July 1 and continuing until date of redemption (collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to a tax sale by the County Treasurer – Tax Collector.

Property taxes on the unsecured roll are due as of January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

In addition, State legislation enacted in 1984 established the "supplemental roll," which directs the County Assessor to re-assess real property, at market value, on the date the property changes ownership or upon completion of new construction. Property on the supplemental roll is eligible for billing 30 days after the reassessment and notification to the new assessee. The resultant charge (or refund) is a one-time levy on the increase (or decrease) in value for the period between the date of the change in ownership or completion of new construction and the date of the next regular tax roll upon which the assessment is entered.

Supplemental roll billings are made on a monthly basis and are due on the date mailed. If mailed within the months of July through October, the first installment becomes delinquent on December 10 and the second on April 10. If mailed within the months of November through June, the first installment becomes delinquent on the last day of the month following the month of billing. The second installment becomes delinquent on the last day of the fourth month following the date the first installment is delinquent. These assessments are subject to the same penalties and default procedures as the secured and unsecured rolls.

The following tables describe the secured property tax roll and the unsecured property tax roll of the County for Fiscal Year 1996-97 through Fiscal Year 2006-07.

COUNTY OF RIVERSIDE
AD VALOREM PROPERTY TAXES - LEVIES AND COLLECTIONS
FISCAL YEARS 1996-97 THROUGH 2006-07

SECURED PROPERTY TAX ROLL[1]

Fiscal Year	Secured Property Tax Levy	Current Levy Delinquent June 30	Percentage of Current Taxes Delinquent June 30[3]	Total Collections[2]	Percentage of Total Collections to Current Levy
1996-97	948,771,329	50,879,482	5.36%	979,548,891	103.24%
1997-98	947,845,458	43,413,279	4.58%	989,979,458	104.45%
1998-99	964,844,205	39,123,776	4.05%	1,015,412,511	105.24%
1999-00	1,020,377,070	34,509,599	3.38%	1,076,947,278	105.54%
2000-01	1,106,323,882	40,719,497	3.68%	1,132,998,817	102.41%
2001-02	1,209,745,112	42,292,916	3.50%	1,235,188,224	102.10%
2002-03	1,348,190,139	44,478,022	3.30%	1,388,639,880	103.00%
2003-04	1,506,949,011	42,164,689	2.80%	1,571,572,091	104.29%
2004-05	1,747,034,222	55,557,116	3.18%	1,797,065,686	102.86%
2005-06	2,094,068,686	88,930,195	4.25%	2,116,369,838	101.06%
2006-07	2,559,448,076	108,776,543 [4]	4.25%[4]	2,586,705,367 [4]	101.06%[4]

(1) The Levy and Collection data reflects the 1% levy allowed under Article XIIIA of the California Constitution and additional taxes levied for voter-approved debt and special assessments. Taxes for the County, cities, schools districts, special districts and redevelopment agencies are included in the totals.
(2) Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.
(3) Under the Teeter Plan, participating agencies receive their full levy of current secured taxes regardless of delinquency rate, subject to roll corrections during the year. Prior year taxes are deposited to the Teeter Plan fund.
(4) Estimate only.

Source: County Auditor-Controller

UNSECURED PROPERTY TAX ROLL[1]

Fiscal Year	Unsecured Property Tax Levy	Total Collections[2]	Percentage of Total Collections to Original Levy
1993-94	$28,148,126	$30,177,206	107.21%
1994-95	27,925,546	30,376,694	108.78
1995-96	28,779,287	31,649,332	109.97
1996-97	29,750,582	32,192,685	108.21
1997-98	29,470,141	32,449,742	110.11
1998-99	34,146,467	34,811,411	101.95
1999-00	37,937,325	38,540,297	101.59
2000-01	44,069,979	42,217,300	95.80
2001-02	47,725,432	45,099,982	94.50
2002-03	51,805,548	48,211,472	93.06
2003-04	56,479,231	52,564,373	93.07
2004-05	61,359,545	58,129,130	94.74
2005-06	67,010,790	61,599,428	91.92
2006-07	71,315,299	63,097,215[3]	88.48[3]

(1) The Levy and Collection data reflects the 1% levy allowed under Article XIIIA of the California Constitution and additional taxes levied for voter-approved debt and special assessments. Taxes for the County, cities, schools districts, special districts and redevelopment agencies are included in the totals.

(2) Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.

(3) Estimates only.

Source: County Auditor-Controller

COUNTY OF RIVERSIDE
SUMMARY OF SUPPLEMENTAL ROLL
AD VALOREM PROPERTY TAXATION
FISCAL YEARS 1990-91 THROUGH 2005-06

Fiscal Year	Tax Levy for Increased Assessments[(1),(2)]	Refunds for Decreased Assessments[(1)]	Net Tax Levy	Collections[(1),(2)]
1990-91	$59,427,159	$1,819,284	$57,607,875	$48,128,084
1991-92	35,777,800	1,988,481	33,789,319	31,876,976
1992-93	24,629,702	2,785,323	21,844,379	20,595,982
1993-94	15,525,496	4,314,271	11,211,225	14,014,151
1994-95	16,194,896	6,638,055	9,556,841	21,860,083
1995-96	14,185,658	6,895,458	7,290,200	15,806,432
1996-97	13,990,281	6,638,692	7,351,589	14,724,507
1997-98	21,720,736	8,089,710	13,631,026	19,755,383
1998-99	31,007,626	6,446,611	24,561,015	28,675,990
1999-00	48,702,588	4,387,767	44,314,821	49,125,986
2000-01	54,057,911	3,282,783	50,775,128	40,942,746
2001-02	68,229,225	2,080,315	66,148,910	58,791,150
2002-03	61,087,244	1,812,989	59,274,255	72,892,196
2003-04	107,873,487	2,072,831	105,800,656	92,039,986
2004-05	201,364,003	2,057,278	199,306,725	151,778,352
2005-06	334,571,225	1,821,113	332,750,112	248,929,219

(1) These figures include tax levy, refunds and collections for all districts, including the County, cities, school districts, special districts and redevelopment agencies.
(2) Includes current and prior years' taxes, redemption penalties and interest collected.

Source: County Auditor-Controller/County Treasurer and Tax Collector

COUNTY OF RIVERSIDE
ASSESSED VALUATION HISTORY BY CATEGORY AND PROPERTY TYPE[(1)]
FISCAL YEARS 2001-02 THROUGH 2006-07
(IN MILLIONS)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
SECURED PROPERTY:						
Land	$32,151	$ 35,014	$ 38,580	$ 44,284	$ 52,819	$ 66,302
Structures	61,230	69,219	77,044	89,242	107,234	130,830
Personal Property	795	845	720	810	783	803
Utilities	2,010	2,012	2,076	2,080	2,286	2,614
Total Secured	$96,186	$107,090	$118,420	$136,416	$163,122	$200,549
UNSECURED PROPERTY:						
Land	$ 13	$ 9	$ 6	$ 5	$ 4	$ 3
Improvements	1,847	2,049	2,262	2,450	2,709	2,839
Personal Property	2,577	2,740	2,736	3,008	3,307	3,571
Total Unsecured	$ 4,437	$ 4,798	$ 5,004	$ 5,463	$ 6,020	$ 6,413
Grand Total	$100,623	$111,888	$123,424	$141,879	$169,142	$206,962

Note: Assessed valuation is reported as of July 1 of each year at 100% of full taxable value. Pursuant to Article XIIIA of the California Constitution (Property 13), property is valued for tax purposes at the 1975 fair market value, adjusted annually for inflation (not to exceed 2%). Generally, property is reassessed at fair market value upon change of ownership and for new construction.

Source: County Auditor-Controller/County Assessor

Property Tax Appeals. The County has received assessment appeals applicable to Fiscal Year 2006-07 totaling approximately $3.1 billion of assessed value. Successful appeals result in either a refund of taxes paid or a reduction to an unpaid tax bill. A total of $2.3 billion of assessed value, representing $23 million in general purpose taxes, was reduced from the County tax roll for Fiscal Year 2004-05 and Fiscal Year 2005-06, representing 45% of the total assessed valuation which was appealed. The majority of appeals applicable to Fiscal Year 2004-05 have been completed. The remainder of the Fiscal Year 2005-06 and the Fiscal Year 2006-07 assessment appeals are expected to be completed by June 1, 2008.

The County cannot predict with certainty the outcome of the assessment appeals that have been filed but not resolved. It is expected that the impact of the assessment appeals on the Fiscal Year 2006-07 budget will be determined primarily by three components: (i) the remainder of the Fiscal Year 2004-05, Fiscal Year 2005-06 and Fiscal Year 2006-07 assessment appeals still to be completed; (ii) approximately 36% of the Fiscal Year 2006-07 appeals being completed during Fiscal Year 2006-07; and (iii) additional assessment revenue of approximately $2 million, which the County Assessor projects will be billed during Fiscal Year 2006-07 and reduce the impact of the Fiscal Year 2006-07 appeals.

Teeter Plan

In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its General Fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's General Fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected.

Pursuant to the Teeter Plan, the County is also required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax defaulted property (i.e., if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Funding for the County's on-going obligations under the Teeter Plan was accomplished through the sale, on October 25, 2006, of County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (The "Notes") in the amount of $86.2 million. The approximately $86.2 million was comprised of $67.7 million representing fiscal year 2005-2006 delinquent property taxes and $18.5 million representing prior years' delinquent property taxes. Westdeutsche Landesbank Girozentrale ("West LB") and Citibank are the letter of credit providers for the Notes and the County's General Fund is pledged to the repayment of the Notes in addition to the pledge of the delinquent taxes in the event that delinquent taxes collected are not sufficient to make the annual repayment. The County has since issued tax-exempt Series B-1 of $34.4 and Series B-2 of $51.8 million in commercial paper notes. West LB provides the letter of credit for the Series B-1 Notes and Citibank for the Series B-2 Notes. West LB has extended the Series B-1 letter of credit until 2015 and the Series B-2 letter of credit will expire on December 7, 2008.

Largest Taxpayers

The 25 largest taxpayers in the County, as shown on the Fiscal Year 2005-06 tax roll, and the approximate amounts of their property tax payments (for all taxing jurisdictions within the County) for such Fiscal Year are shown below.

COUNTY OF RIVERSIDE
TWENTY-FIVE LARGEST TAXPAYERS IN FISCAL YEAR 2006-07
SECURED AND UNSECURED ASSESSMENTS

TAXPAYER	TOTAL TAXES LEVIED	PERCENTAGE OF TOTAL TAX CHARGE
Centex Homes	$11,543,353.69	0.44%
Southern California Edison Company	10,572,200.16	0.41
Lennar Homes of Calif Inc	9,086,529.94	0.35
Verizon California, Inc	8,975,656.16	0.35
KB Home Coastal Inc	5,683,741.26	0.22
Pulte Home Corp	5,538,810.84	0.21
Western Pacific Housing Inc	4,357,819.76	0.17
KSL Desert Resort	4,297,232.10	0.17
Southern California Gas Company	4,185,342.00	0.16
Standard Pacific Corp	4,162,670.74	0.16
Ryland Homes of Calif Inc	3,448,277.48	0.13
Pardee Homes	3,357,593.94	0.13
Ashby USA	3,173,575.73	0.12
Beazer Homes Holdings Corp	2,704,481.68	0.10
Richmond American Homes of Calif Inc	2,568,883.34	0.10
Blythe Energy, LLC	2,506,636.44	0.10
Mw Housing Partners III	2,473,679.20	0.10
Tyler Mall Ltd Partnership	2,272,243.06	0.09
Bre Prop Inc	1,955,772.68	0.08
Lowes HIW Inc	1,917,865.57	0.07
Wal Mart Real Estate Business Trust	1,872,960.06	0.07
Cingular Wireless, LLC	1,823,466.34	0.07
William Lyon Homes Inc	1,821,712.90	0.07
Advanced Cardiovascular System Inc	1,803,276.45	0.07
Continental Residential Inc	1,790,860.08	0.07

Source: County Treasurer and Tax Collector

The 10 largest taxpayers in the County by assessed value, for the Fiscal Year 2005-06 are shown below.

COUNTY OF RIVERSIDE
TEN LARGEST TAXPAYERS IN FISCAL YEAR 2006-07
BY ASSESSED VALUE

ASSESSEE	ASSESSED VALUE
D&S Hotel	$241,023,778.00
KSL Desert Resort	234,152,676.00
Kaiser Foundation	207,308,452.00
Eisenhower Memorial Hospital	179,404,048.00
Tyler Mall LTD Partnership	131,955,315.00
Wea Palm Desert LP	110,889,516.00
Starwood Mission Hills CMBS I	107,686,585.00
La Sierra University	105,287,205.00
WS 1 Inv LP	99,960,000.00
Temecula Towne Center Assoc	97,522,661.00

Other Taxing Entities

The County does not retain all of the property taxes it collects for its own purposes. In fact, the bulk of the funds collected are disbursed to other agencies. For Fiscal Year 2005-06, the County retained approximately 12.3% of the total amount collected. The remainder is distributed according to State law (AB 8), which established a tax-sharing formula, and State redevelopment law. Taxes levied for the purpose of repaying general obligation debt, special taxes and assessments are passed on in their entirety, less any allowable collection charges.

The County's share of the property tax will vary throughout the County depending upon the presence of other taxing entities, e.g. cities, water districts, sanitation districts, school districts and redevelopment agencies.

Redevelopment Agencies

The California Community Redevelopment Law (Health and Safety Code Section 33000 et seq.) authorizes the redevelopment agency of any city or county to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuation of properties within the designated project areas. In effect, local taxing authorities other than the redevelopment agency realize tax revenues only on the "frozen" tax base, except for those instances where the affected taxing agencies have negotiated agreements with redevelopment agencies to receive a share of tax increment proceeds.

The following table summarizes the community redevelopment agencies' frozen base value, full cash value increments, and total tax allocations.

COUNTY OF RIVERSIDE
COMMUNITY REDEVELOPMENT AGENCIES'
FROZEN BASE VALUE, FULL CASH VALUE INCREMENTS
AND TOTAL TAX ALLOCATIONS
FISCAL YEARS 1996-97 THROUGH 2006-07

Fiscal Year	Frozen Base Value	Full Cash Value Increments[(1)]	Total Tax Allocations[(2)]
1996-97	$ 8,168,238,236	$ 14,310,497,618	$ 145,706,128
1997-98	8,999,886,482	14,615,580,607	146,573,738
1998-99	9,198,183,768	15,066,118,043	152,612,557
1999-00	9,839,372,531	16,820,555,845	170,384,171
2000-01	10,966,072,778	20,127,612,843	203,253,963
2001-02	11,061,406,310	23,504,382,046	236,954,730
2002-03	11,061,415,310	26,977,389,195	271,878,884
2003-04	11,384,632,277	30,660,791,085	308,514,347
2004-05	12,271,092,108	34,974,969,456	352,602,509
2005-06	14,682,893,563	42,414,898,724	427,668,011
2006-07	14,555,513,591[(4)]	52,411,876,802	529,173,451[(3)]

(1) Full cash value for all redevelopment projects (including County projects) above the "frozen" base year valuations. This data represents growth in full cash values generating tax revenues for use by the community redevelopment agencies.
(2) Actual cash revenues collected by the County and subsequently paid to community redevelopment agencies, subject to debt limitation and certain negotiated agreements with taxing entities for a share of the property tax increment.
(3) Includes general purpose and debt.
(4) County 100 report value for FY 2006-07.

Source: County Auditor-Controller

The net effect of the formation of a redevelopment area is to redistribute tax revenues away from the AB 8 formula. Redevelopment agencies generally receive the majority of the taxes to be allocated. Other taxing entities may receive a portion of the tax revenue pursuant to agreements negotiated with the redevelopment agency. In the early years of redevelopment the amount "passed through" by redevelopment agencies was relatively low. As the years passed, affected tax-sharing agencies became more sensitive to the potential loss of revenue. AB 1290, effective January 1, 1994, prescribed a formula for pass through of property tax increment to the tax-sharing entities cumulatively over the life of each redevelopment project.

The County has formed a redevelopment agency with project areas in 38 unincorporated communities. As of June 30, 2006, the County Redevelopment Agency had a total land area of 65,608 acres and a base year assessed value, including State-owned land, of $2,325,277,564. The loss in tax revenue to the County General Fund as a result of the County Redevelopment Agency in Fiscal Year 2006-07 is estimated at approximately $5,580,000*.

*Based on average county share of 13% of the 1% general property tax.

Financial Statements and Related Issues

The County's accounting policies used in preparation of its audited financial statements conform to generally accepted accounting principles applicable to counties. The County's governmental funds and fiduciary funds use the modified accrual basis of accounting. This system recognizes revenues in the accounting period in which they become available and measurable. Expenditures, with the exception of unmatured interest on general long-term debt, are recognized in the accounting period in which the fund liability is incurred. Proprietary funds use the accrual basis of accounting, and revenues are recognized in the accounting period in which they are earned and become measurable, while expenses are recognized in the period during which they are incurred.

The State Government Code requires every county to prepare an annual financial report. The County Auditor-Controller prepares the "Annual Financial Report of the County of Riverside." Under the U.S. Single Audit Act of 1984 and State law, independent audits are required on all operating funds under the control of the Board of Supervisors and must be conducted annually. The County's financial statements for Fiscal Year 2004-05 were audited by Vavrinek, Trine, Day and Co., LLP. See Appendix B – "THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

The County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* during Fiscal Year 2001-02. This statement affects the manner in which the County records transactions and presents financial information. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "management's discussion and analysis" (MD&A). In addition, the new reporting model established by GASB Statement No. 34 includes financial statements prepared using full accrual accounting for all of the County's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. The new reporting model features a statement of net assets and a statement of activities. The statement of net assets is designed to display the financial position of the government. The County now reports all capital assets, including infrastructure assets, in the government-wide statement of net assets and reports depreciation expense in the statement of activities. The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the County's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the County has recorded other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. For further information on GASB Statement No. 34 and other changes in significant accounting policies, see Note 1 of the Notes to Basic Financial Statements, June 30, 2006, which are included in Appendix B – "THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

COUNTY OF RIVERSIDE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN UNRESERVED FUND BALANCES – GENERAL FUND
FISCAL YEARS 2001-02 THROUGH 2005-06
(In Thousands)

	2001-02	2002-03	2003-04	2004-05	2005-06
BEGINNING FUND BALANCE	$ 193,838[1]	$ 216,561[1]	$ 220,209[1]	$ 249,053	$ 339,321[1]
REVENUES					
Taxes	146,435	160,220	193,329	219,420	273,493
Licenses, permits and franchises	16,973	15,411	19,964	22,157	21,569
Fines, forfeitures and penalties	31,064	36,899	42,905	70,023	62,305
Use of money and property – Interest	27,116	12,893	8,724	21,126	42,826
Use of money and property – Rents and concessions	840	966	1,359	4,253	4,131
Government Aid – State	651,431	657,085	673,403	660,761	785,390
Government Aid – Federal	331,809	373,766	373,146	395,655	395,105
Governmental Aid-Other	49,425	46,099	46,750	55,661	69,042
Charges for current services	225,753	237,987	263,107	293,581	326,066
Other revenues	54,257	56,504	55,260	82,334	13,936
TOTAL REVENUES	$1,535,103	$1,597,830	$1,677,947	$1,824,971	$1,993,863
EXPENDITURES					
General government	$ 104,365	$ 133,476	$ 101,429	$ 105,992	123,716
Public protection	565,380	611,014	674,389	742,550	798,035
Public ways and facilities	--	--	--	3,430	3,930
Health and sanitation	302,195	338,265	362,010	279,472	337,139
Public assistance	491,554	520,345	536,275	569,412	588,928
Education	303	343	337	332	349
Recreation and cultural	258	194	181	175	203
Capital Outlay	1,001	8,435	1,008	6,616	7,929
Debt service	37,943	9,527	14,454	36,119	33,576
TOTAL EXPENDITURES	$1,502,999	$1,621,599	$1,690,083	$1,744,098	$1,893,805
Excess (deficit) of revenues over (under) expenditures	32,104	(23,769)	(12,136)	80,873	100,058
OTHER FINANCING SOURCES (USES)					
Transfer from other reserves	$ 24,033	$ 35,523	$ 60,999	$ 69,014	$ 103,586
Transfer to other funds	(32,992)	(18,172)	(21,027)	(53,102)	(104,172)
Capital Leases	1,001	8,435	1,008	6,616	8,125
Total other Financing Sources (Uses)	(7,958)	25,786	40,980	22,528	7,539
NET CHANGE IN FUND BALANCES	24,146	2,017	28,844	103,401	107,597
Residual Equity Transfer In (Out)	--	--	--	--	--
FUND BALANCE, END OF YEAR	217,984	218,578	249,053	352,454	446,918
Less:					
Reserved Fund Balance	74,252	103,489	100,940	121,249	100,436
Designated Fund Balance	84,608	89,011	70,361	185,014	277,833
UNDESIGNATED UNRESERVED FUND BALANCE	$ 59,124	$ 26,078	$ 77,752	$ 46,191	$ 68,649

(1) Beginning unreserved fund balance does not equal prior year ending unreserved fund balance due to an equity restatement.

Source: County Auditor-Controller.

COUNTY OF RIVERSIDE
GENERAL FUND BALANCE SHEETS
AT JUNE 30, 2002 THROUGH JUNE 30, 2006
(In Thousands)

	2002	2003	2004	2005	2006
ASSETS:					
Cash & Marketable Securities	$ 41,566	$ 44,433	$ 65,681	$184,723	$257,077
Taxes Receivable	4,310	4,336	4,367	20,679	19,939
Accounts Receivable	4,331	4,534	21,472	37,177	43,255
Interest Receivable	3,465	3,026	4,078	9,214	9,124
Advances to Other Funds	2,955	7,766	5,646	40	20
Due from Other Funds	16,195	12,369	8,892	8,435	5,895
Due from Other Governments	187,736	172,459	214,319	195,064	206,270
Inventories	1,018	865	2,979	1,801	1,806
Restricted Assets	198,081	189,143	230,390	436,555	228,897
Total Assets	$459,657	$438,931	$557,824	$893,688	$772,283
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts Payable	$ 19,070	$ 47,834	$ 70,790	$ 86,713	$85,857
Salaries & Benefits Payable	31,125	35,670	46,367	52,805	63,119
Due To Other Funds	4,523	3,627	945	4,928	1,189
Due to Other Governments	30,033	15,248	19,663	45,057	35,017
Due to Third Parties	11,485[3]	--[2]	--[2]	--[2]	--[2]
Deferred Revenue	143,611	117,954	170,981	133,742	140,101
Deposits Payable	1,826[1]	20	25	67	82
Bonds & Notes Payable	--[2]	--[2]	--[2]	217,922	--[2]
Total Liabilities	$241,673	$220,353	$308,771	$541,234	$325,365
FUND BALANCE:					
Reserved	$ 74,252	$103,489	$100,940	$121,249	$100,436
Unreserved	143,732	115,089	148,113	231,205	346,482
Fund Balance	$217,984	$218,578	$249,053	$352,454	$446,918
Total Liabilities and Fund Balance	$459,657	$438,931	$557,824	$893,688	$772,283

(1) Category added in the County of Riverside Balance Sheet as presented in the Combined Financial Statements of the County for Fiscal Year 2001-02 pursuant to GASB Statement No. 34.

(2) No activity to report.

Source: County Auditor-Controller.

Long-Term Obligations of County

During its 108 years of existence, to the best knowledge of County officials, the County has never failed to pay the principal of or interest on any of its bonded indebtedness. As of June 30, 2007, the County had $643,021,333 in direct general obligation bonded indebtedness and $392,890,000 in pension obligation bond indebtedness, as reflected in the following table, and has no authorized but unissued general obligation debt. Set forth below is an estimated direct and overlapping debt report as of June 30, 2007.

COUNTY OF RIVERSIDE
ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS
(AS OF JUNE 30, 2007)

RIVERSIDE COUNTY

2006-07 Assessed Valuation:	$205,744,450,510	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	52,546,650,877	
Adjusted Assessed Valuation:	$153,197,799,633	

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/07	% Applicable (1)	County's Share of Debt 6/30/07
Metropolitan Water District	$ 359,115,000	6.838%	$ 24,556,284
Community College Districts	394,815,545	1.470-100.	234,316,727
Unified School Districts	1,419,084,358	2.981-100.	1,318,298,304
Perris Union High School District	59,397,260	100.	59,397,260
Union School Districts	18,058,922	100.	18,058,922
City of Corona	3,520,000	100.	3,520,000
City of Riverside	19,075,000	100.	19,075,000
Eastern Municipal Water District Improvement Districts	20,255,000	100.	20,255,000
Elsinore Valley Municipal Water District Improvement District No. U2	1,330,000	100.	1,330,000
Coachella County Water District Improvement Districts	10,905,000	100.	10,905,000
Rancho California Water District, Rancho and Santa Rosa Divisions	8,080,000	100.	8,080,000
Riverside County Flood Control, Zones 4-2 B and 3-B Benefit Assessment Districts	4,105,000	100.	4,105,000
San Gorgonio Memorial Hospital District	25,000,000	100.	25,000,000
Other Special Districts	230,500	100.	230,500
Community Facilities Districts	2,877,229,354	94.268-100.	2,876,501,103
Riverside County 1915 Act Bonds	52,030,000	100.	52,030,000
City and Special District 1915 Act Bonds (Estimated)	327,709,732	100.	327,709,732
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT			$5,003,368,832
Less: Moreno Valley Community Facilities District No. 87-1 (100% self-supporting from tax increment revenues)			12,510,000
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT			$4,990,858,832
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Riverside County General Fund Obligations	**$643,021,333**	**100. %**	**$ 643,021,333**
Riverside County Pension Obligations	**392,890,000**	**100.**	**392,890,000**
Riverside County Board of Education Obligations	10,275,000	100.	10,275,000
School Districts General Fund and Lease Tax Obligations	686,902,952	2.981-100.	661,683,893
City of Corona General Fund Obligations	80,250,000	100.	80,250,000
City of Moreno Valley General Fund Obligations	86,410,000	100.	86,410,000
City of Murrieta General Fund Obligations	19,305,000	100.	19,305,000
City of Palm Springs Certificates of Participation and Pension Obligations	133,433,588	100.	133,433,588
City of Riverside Certificates of Participation	191,945,000	100.	191,945,000
City of Riverside Pension Obligations	144,450,000	100.	144,450,000
Other City General Fund and Special Tax Obligations	97,135,000	100.	97,135,200
Rancho California Water District Financing Authority	112,487,356	100.	112,487,356
Other Water District Certificates of Participation	15,575,855	0.312-100.	11,325,411
Other Special District Certificates of Participation	4,435,000	Various	4,435,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$2,589,046,781
Less: **Riverside District Court Financing Corporation (100% self-supporting from U.S. General Services Administration)**			**18,581,460**
Perris Union High School District self-supporting obligations			5,000,000
Rancho California Water District Financing Authority self-supporting obligations			87,492,665
Other Special District self-supporting bonds (self-supporting from enterprise revenues)			128,104
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$2,477,844,552
GROSS COMBINED TOTAL DEBT			$7,592,415,613[2]

NET COMBINED TOTAL DEBT	$7,468,703,384

(1) Percentage of each overlapping agency's assessed valuation located within the boundaries of the county.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

<u>Ratios to 2006-07 Assessed Valuation</u>:
Gross Overlapping Tax and Assessment Debt....................2.43%
Net Overlapping Tax and Assessment Debt....................2.43%

<u>Ratios to Adjusted Assessed Valuation</u>:
Combined Gross Direct Debt ($1,035,911,333)....................0.68%
Combined Net Direct Debt ($1,017,329,873)....................0.66%
Gross Combined Total Debt....................4.96%
Net Combined Total Debt....................4.88%

<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07</u>: $0

Source: California Municipal Statistics, Inc.

Lease Obligations

The County has used nonprofit corporations and joint powers authorities to finance certain public facilities through the issuance of lease obligations. Pursuant to these arrangements, a nonprofit corporation or joint powers authority constructs or acquires facilities with the proceeds of lease revenue obligations which are then leased to the County. Upon expiration of the lease, title to the facilities vests in the County.

As of June 30, 2007, the County's current outstanding lease obligations total $641,275,234. The County's annual lease obligation is approximately $58,271,118 and the maximum annual lease payment is $62,668,251.

The following table summarizes the County's outstanding lease obligations and the respective annual lease requirements as of June 30, 2007.

COUNTY OF RIVERSIDE
SUMMARY OF LEASE RENTAL OBLIGATIONS
(PAYABLE FROM THE COUNTY'S GENERAL FUND)
(As of June 30, 2007)

	Final Maturity Year	Original Lease Amount	Obligations Outstanding	Annual Base Rental[1]
Riverside County Public Facilities Project 1985 Certificates of Participation – Type I	2015	$148,500,000	$89,300,000	$10,412,500[2]
County of Riverside Sublease to Cal. Health Facilities Financing Authority, 1986 Series B Bonds	2011	10,210,000	3,643,701	999,338
Riverside County Hospital Project, Leasehold Revenue Bonds:				
1993 Series A and B	2014	149,060,000	53,650,000	
1997 Series A	2026	41,170,073	41,170,073	
1997 Series B & C	2019	71,985,000	69,635,000	
2003 Series A & B	2009	60,180,000	21,630,000	18,900,379[3]
County of Riverside 1990 Taxable Variable Rate Certificates of Participation (Monterey Avenue)	2020	8,800,000	6,800,000	898,500[4]
Riverside County Palm Desert Financing Authority Lease Revenue Bonds, 2003 Series A	2033	22,310,000	20,940,000	1,482,048
County of Riverside Certificates of Participation (Historic Courthouse Project):				
2003 Series A	2033	13,190,000	12,930,000	871,405
2005 Series B	2027	22,610,000	21,900,000	1,420,003[5]
County of Riverside Certificates of Participation[6] (1997 Lease Refunding Project)	2021	58,070,000	24,290,000	2,625,538
County of Riverside Court Financing Corporation (Bankruptcy Courthouse Acquisition Property)	2027	18,000,000	13,450,000	1,454,451
County of Riverside Certificates of Participation[7] (1998 Larson Justice Center Refunding)	2021	36,100,000	26,240,000	2,488,925
Riverside District Court Financing Corporation (United States District Court Project):				
Series 1999	2020	24,835,000	17,821,460	
Series 2002	2020	925,000	740,000	1,802,222[8]
County of Riverside Leasehold Revenue Bonds (Southwest Justice Center Project Series 2000 A & B	2032	94,245,000	89,705,000	6,556,296
County of Riverside Certificates of Participation (County Administrative Center Annex Project)	2031	38,075,000	35,450,000	2,535,281
County of Riverside Refunding Certificates of Participation (Capital Facilities Project) 2003 Series B	2018	8,685,000	6,240,000	1,016,275[9]
County of Riverside Certificates of Participation (2005 Series A Capital Improvement and Family Law Court Refunding Project)	2036	51,655,000	51,065,000	3,216,813[10]
County of Riverside Certificates of Participation (2006 Series A Capital Improvement Projects)	2037	34,675,000	34,675,000	1,591,144
TOTAL		$913,280,073	$641,275,234	$58,271,118

Footnotes appear on following page.

Source: County Executive Office.

(1) Annual base rental for Fiscal Year 2007-2008 unless otherwise noted.
(2) Annual base rental estimated at assumed interest rate of 5% per annum. The average interest rate for the twelve-month period ending June 30, 2007 was approximately 3.52%.
(3) Total annual base rental for Riverside County Hospital Project, Leasehold Revenue Bonds.
(4) Annual base rental estimated at assumed interest rate of 9%. The average interest rate for the twelve-month period ending June 30, 2007 was approximately 5.34%.
(5) The 2005 Series B Historic Courthouse Refunding Project refunded the 1997 Historic Courthouse Project.
(6) The 1997 Lease Refunding Project refunded the 1991 Series A Capital Projects and the 1991 Series B Equipment Projects.
(7) The 1998 Larson Justice Center Refunding Project refunded the 1994 Desert Justice Center Project.
(8) Total annual base rental for Riverside District Court Financing Corporation (United States District Court Project).
(9) The 2003 Series B refunded the 1993 Master Refunding Project.
(10) A portion of the proceeds of the 2005 Series A Certificates was used to prepay all of the County of Riverside Certificates of Participation (Family Law Court Project).

Employees

A summary of County employment levels follows. Some employees are hired under various federally funded programs.

COUNTY OF RIVERSIDE
REGULAR EMPLOYEES
1996 THROUGH 2007

Year	Regular Employees(1)
1996	11,076
1997	11,304
1998	11,687
1999	12,808
2000	13,332
2001	15,951
2002	14,729(2)
2003	14,889
2004	14,862
2005	14,852
2006	15,832
2007(3)	16,586

(1) As of December 31st of each year. Excludes temporary and per diem employees, which totaled approximately 953 employees in 1997, 1,260 employees in 2004, and 2,593 employees in 2005, and 2,522 employees in 2006.

(2) Reduction in regular employees due to court employees becoming State employees.

(3) As of July, 2007.

Source: County Human Resources Department

County employees comprise 11 bargaining units, plus another 7 unrepresented employee groups. Eleven of these units are represented by five labor organizations. The two largest of these organizations, Service Employees International Union, Local 721 ("SEIU") and the Laborers International Union of North America ("LIUNA"), represent approximately 70% of all County employees in a variety of job classifications. Salary, benefits and other personnel issues for management, confidential and other units which are exempt from collective bargaining, are governed by a County ordinance for personnel matters.

The County's law enforcement employees (non-management), Deputy Probation Officers and Group Counselors are represented by the Riverside Sheriffs' Association ("RSA"). Management employees of the law enforcement group are represented by the Riverside County Law Enforcement Management Unit ("LEMU"). The prosecuting attorneys of the District Attorney's Office are represented by the Deputy District Attorney's Association ("DDAA").

The agreement with SEIU will extend through June 30, 2009. The agreement with LIUNA will extend through June 30, 2010. The current 3-year agreement with RSA for the Law Enforcement Unit will expire December 31, 2007. The County's agreement with RSA for the Public Safety Unit will expire on January 31, 2009. The County's agreement with DDAA will extend through March 31, 2009, and its agreement with LEMU extends through June 30, 2008. During the last twenty years, there has been no major County employee work stoppage.

Retirement Program

General. The County provides retirement benefits to all regular County employees scheduled to work over 1,000 hours in a plan year through its California Public Employees' Retirement System ("PERS") Contract (as amended to date, and as may further be amended from time to time, the "PERS Contract"), a multiple-employer public sector employee defined benefit pension plan. The retirement plan, as amended, provides simultaneous coverage of eligible employees in the Miscellaneous Plan (herein defined) with PERS and social security, and coverage in lieu of Social Security for safety members. PERS provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. The retirement benefits are based on years of service, age and the average monthly qualifying wages during the highest single year of employment. The benefit for miscellaneous members is the product of the benefit factor (based on age), years of service, and final compensation; the benefit factor ranges from 2% at age 50 to 3% at ages 60 and beyond. For safety members, the benefit factor is 3% at age 50 and beyond. The plan also provides for cost-of-living adjustments of 2% per year after retirement.

Included among the employees covered under the PERS Contract are trial court employees. The State is obligated to reimburse the County for the share of PERS costs associated with the trial court employees with the County, but the County remains primarily liable for such costs under the PERS Contract.

The County established in 2003 a Pension Advisory Review Committee ("PARC") to develop an institutional framework to help guide policy decisions about retirement benefits. One of PARC's primary responsibilities is the preparation of an annual report informing the Board of Supervisors and the public about important developments affecting the County's retirement program, including its projected costs and funding status. The most recent annual PARC report was delivered to the Board of Supervisors on February 27, 2007 (the "PARC Report"). See "– Retirement Program – Funding Status" and "– Retirement Program – Projected County Contributions and UAAL" herein for a description of the PARC Report.

The County's PERS Contract. The following information concerning PERS is excerpted from publicly available sources that the County believes to be reliable; however, the County takes no responsibility as to the accuracy of such information and has not independently verified such information. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. PERS maintains two pension plans for the County, a Safety Plan (the "Safety Plan") and a Miscellaneous Plan (the "Miscellaneous Plan" and, together with the Safety Plan, the "PERS Plans"). The County contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the County who are eligible under PERS.

The staff actuaries at PERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuation delivered to the County in October 2006 covered PERS' Fiscal Year 2004-05). The actuarial valuation expresses the County's required contribution rates in percentages of payroll, which percentages the County contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the County's contribution rates derived from the actuarial valuation as of June 30, 2005, which was prepared in October 2006, will be effective during the County's Fiscal Year 2007-08). PERS rules require the County to implement the actuary's recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions regarding the actuarial present value of benefits that PERS will fund under the PERS Plans, which includes two components, the normal cost and the Unfunded Accrued Actuarial Liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and is not a fixed or hard expression of the liability the County owes to PERS under the PERS Plans. The County's actual liability under the PERS Plans could be materially higher or lower.

In April 2005, the PERS Board approved an employer rate stabilization policy with the following features: (i) in the calculation of the actuarial value of assets, market value asset gains and losses will be spread over 15 years, instead of 3 years; (ii) the corridor limits for the actuarial value of assets will be changed from 90-110% of market value to 80-120% of market value; (iii) gains and losses will be amortized over a rolling 30-year period (amortization payment on gains and losses had been 10% of the base); and (iv) the minimum employer contribution rate will be a percentage equal to the employer normal cost minus a 30-year amortization of surplus (but not less than 0%).

In calculating the UAAL in an actuarial valuation, the PERS actuary smoothes gains and losses over a number of years (the exact number of which is adjusted as expected values fluctuate) using a smoothing technique. Prior to April 2005, one-third of the gain or loss realized was recognized in a given Fiscal Year. Under the rate stabilization policy effective as of April 2005, one-fifteenth of the market value change will be recognized in a given Fiscal Year. In each actuarial valuation, the PERS actuary calculates what was the expected actuarial value of the assets (the "Expected Value") of the PERS Plans at the end of the Fiscal Year (which assumes, among other things, that the actuarial rate of return during that Fiscal Year equaled the assumed rate of investment return). However, PERS does not allow the Expected Value to be less than 80% or more than 120% of the market value.

In May 2004, the PERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3.5% to 3%. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows: (i) the annual assumed investment return has decreased from 8.25% to 7.75%; (ii) the long term salary increase assumption has decreased from 3.75% to 3.25%; and (iii) the inflation component of individual salary scales has decreased from 3.75% to 3.25%.

The change to the inflation assumption also impacted the cost of living adjustments and purchasing power protection allowances assumed in the actuarial valuations. The PERS Board also approved significant demographic assumption changes. The combined impact of the updated demographic and economic assumptions on the Miscellaneous Plan contribution rates was an increase of approximately 1 percentage point. The combined impact of the updated demographic and economic assumptions on the Safety Plan contribution rates was a decrease of approximately 5 percentage points. These changes were reflected in the June 30, 2003 PERS actuarial report, which affects County contribution rates starting in Fiscal Year 2005-06. For complete updated inflation and actuarial assumptions, please contact PERS at CalPERS, Lincoln Plaza, 400 P Street, Sacramento, CA 95814, Telephone: (888) 225-7377.

In addition to required County contributions, members are also obligated to make certain payments. The members' contribution rates are fixed at 9% of salaries for the Safety Plan and 8% of salaries for the Miscellaneous Plan. In addition to making annual contributions to PERS in accordance with the applicable actuarial valuation, the County also is obligated pursuant to the collective bargaining arrangements with the County's employee unions to pay a portion of the employees' required contribution to PERS (these payments by the County are referred to herein as the "County Offsets of Employee Contributions"). The County pays the employee share of safety retirement to the Safety Plan for all safety members hired prior to June 25, 1992 and the employee share of miscellaneous retirement to the Miscellaneous Plan for all miscellaneous members who were hired prior to January 10, 1992. For safety members hired after June 25, 1992, the employee will pay the employee share for the first three years, and the County will pay the employee share in subsequent years. (New safety members transferring from another public agency may be exempt from paying the entire employee share under certain conditions.) For miscellaneous members hired after January 10, 1992, the employee will pay the employee share for the first five years, and the County will pay the employee share for all subsequent years. For Miscellaneous members who are in the management, confidential and unrepresented units, the County will pay the employee share for all years. **Member contributions, including member contributions paid by the County, are not included in the required employer contribution rates prepared by PERS.**

Funding Status. The actuarial value of assets, the actuarial accrued liability and the funding status with respect to the Safety Plan and the Miscellaneous Plan are set forth under "– Historical Funding Status." In the actuarial valuation for the Safety Plan as of June 30, 2005, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 18.625% (after the Second Payment (as defined below), the rate is 18.581%) be implemented as the required rate for Fiscal Year 2007-08, which the County anticipates will result in a contribution to PERS of approximately $37.11 million for that Fiscal Year. In addition, the County will pay to PERS approximately $14.87 million in County Offsets of Employee Contributions for Fiscal Year 2007-08, which will result in a total contribution by the County to PERS for the Safety Plan for Fiscal Year 2007-08 of approximately $51.98 million. In the actuarial valuation for the Miscellaneous Plan as of June 30, 2005, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 12.051% (after the Second Payment (as defined below), the rate is 12.004%) be implemented as the required rate for Fiscal Year 2007-08, which the County anticipates will result in a contribution to PERS of approximately $80.50 million for that Fiscal Year. In addition, the County will pay to PERS for the Miscellaneous Plan approximately $36.46 million in County Offsets of Employee Contributions for Fiscal Year 2007-08, which will result in a total contribution by the County to PERS for the Miscellaneous Plan for Fiscal Year 2007-08 of approximately $116.96 million.

The amount of the County's contribution rates under the PERS Plans increased substantially in Fiscal Years 2003-04 and 2004-05 due in part to the significant investment losses during Fiscal Years 2000-01 through 2002-03 and the benefit improvements for both Safety and Miscellaneous plans. While the investment gains experienced in Fiscal Year 2003-04 will offset some of the previous losses, an actuarial loss remains, requiring the County to pay the entire normal cost payment plus a portion of the UAAL that has resulted.

On February 17, 2005, the County issued its Taxable Pension Obligation Bonds, Series 2005A (the "2005 Pension Obligation Bonds"), the proceeds of which were used to fund approximately 90% of the County's estimated actuarial accrued liability as of February 17, 2005. The payment to PERS resulted in a net pension asset of $396.9 million, $311.2 million of which was applied to the County's UAAL for the Miscellaneous Plan and $85.7 million of which was applied to the County's UAAL for the Safety Plan. According to the County's actuary, Bartel & Associates ("Bartel"), the issuance of the 2005 Pension Obligation Bonds helped improve funding status and reduce rates and resulted in an economic benefit to the County of over $38 million since 2005. On June 6, 2006, pursuant to recommendations set forth in the PARC Report, the Board of Supervisors authorized the transfer to PERS of an estimated $5.1 million from the liability management fund established in connection with the 2005 Pension Obligation Bonds to reduce the County's PERS liability. This prepayment is expected to generate $2 million in cash-flow benefit to the County, which will affect and be reflected commencing with the June 30, 2006 valuation. On June 28, 2007, pursuant to recommendations set forth in the PARC Report, the Board of Supervisors authorized the second transfer to PERS of an estimated $6.5 million ("Second Payment") from the liability management fund established in connection with the 2005 Pension Obligation Bonds to reduce the County's PERS liability.

In 2007, the County issued $247.3 million in Tax and Revenue Anticipation Notes through the California Statewide Communities Development Authority Pool, plus an additional $72.7 of tax-exempt Tax and Revenue Anticipation Notes (the "2007 Tax-Exempt TRANS"), the proceeds of which will be used to prepay a portion of the County's PERS contributions for Fiscal Year 2007-08.

While the immediate effect of such prepayments resulted in a significant reduction of the County's UAAL, the long-term effect of such prepayments will depend on a variety of factors, including but not limited to future investment performance.

Historical Funding Status. The following two tables, for the Safety Plan and the Miscellaneous Plan, respectively, set forth the UAAL and funded status as of the valuation dates from June 30, 2000 through June 30, 2005 and the total employer contributions made by the County for Fiscal Year 2002-03 through Fiscal Year 2007-08. The two tables are based on PERS Actuarial Reports for those years:

HISTORICAL FUNDING STATUS
(Safety Plan)

Valuation Date June 30,	UAAL[1]	Funded Status	Affects County Contribution for Fiscal Year	County Contribution Amount[2]	County Offsets of Employee Contributions
2000	($ 90,676,451)	113.2%	2002-03	$19,849,613	$ 9,894,816
2001	(35,814,801)	104.7	2003-04	26,814,335	11,135,649
2002	65,814,787	92.2	2004-05	40,352,947[3]	12,179,380[3]
2003	94,526,520	89.6	2005-06	31,142,344	13,414,052
2004	133,684,051	86.9	2006-07	36,722,257	14,719,343
2005	58,201798	94.8	2007-08	37,111,513[4]	14,875,368[4]

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2005 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

(1) Negative UAAL represents excess assets.

(2) Indicated amounts are those amounts paid by the County to PERS in the indicated years and do not reflect all amounts paid by the County under the Miscellaneous Plan or otherwise.

(3) Includes payments from the County to PERS in connection with the issuance of the 2005 Pension Obligation Bonds and the 2005 Taxable TRANS, which payments will affect and be reflected commencing with the June 30, 2005 valuation.

(4) Estimated amount; reflects Safety Plan membership, cost of living adjustment and contribution rates as of Fiscal Year 2006-07.

HISTORICAL FUNDING STATUS
(Miscellaneous Plan)

Valuation Date June 30,	UAAL[1]	Funded Status	Affects County Contribution for Fiscal Year	County Contribution Amount[2]	County Offsets of Employee Contributions
2001	(143,040,053)	109.1	2003-04	52,256,881	28,154,983
2002	150,161,801	91.4	2004-05	79,139,701[3]	30,560,195[3]
2003	330,444,892	83.5	2005-06	73,074,464	33,122,091
2004	397,462,924	82.2	2006-07	79,679,334	35,086,123
2005	106,958,141	95.7	2007-08	80,507,999[4]	36,461,461[4]

Source: PERS Actuarial Reports for June 30, 2001 through June 30, 2005 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

(1) Negative UAAL represents excess assets.

(2) Indicated amounts are those amounts paid by the County to PERS in the indicated years and do not reflect all amounts paid by the County under the Safety Plan or otherwise.

(3) Includes payments from the County to PERS in connection with the issuance of the 2005 Pension Obligation Bonds and the 2005 Taxable TRANS, which payments will affect and be reflected commencing with the June 30, 2005 valuation.

(4) Estimated amount; reflects Miscellaneous Plan membership, cost of living adjustment and contribution rates as of Fiscal Year 2006-07.

A five-year schedule of the funding progress of the Safety Plan and the Miscellaneous Plan are presented in the following two tables:

SCHEDULE OF FUNDING PROGRESS
(Safety Plan)

Valuation Date June 30,	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll[(1)] ((a-b)/c)
2001	768,055,802	803,870,603	(35,814,801)	104.7	127,824,039	(28.0)
2002	840,221,000	776,005,000	64,216,000	92.4	137,201,000	46.8
2003	907,018,000	814,074,000	92,944,000	89.6	147,519,000	63.0
2004	1,021,085,045	887,401,000	133,684,051	86.9	161,598,000	82.7
2005	1,127,240,234	1,069,038,436	58,201,798	94.8	168,806,459	34.5

Source: PERS Actuarial Reports for June 30, 2001 through June 30, 2005.
(1) Negative percentage represents excess assets over accrued liabilities.

SCHEDULE OF FUNDING PROGRESS
(Miscellaneous Plan)

Valuation Date June 30,	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll[(1)] ((a-b)/c)
2001	1,577,476,976	1,720,517,029	(143,040,053)	109.1	466,882,443	(30.6)
2002	1,750,111,000	1,600,979,000	149,132,000	91.5	527,189,000	28.3
2003	1,998,882,000	1,669,502,000	329,380,000	83.5	542,056,000	60.8
2004	2,231,623,980	1,834,161,056	397,462,924	82.2	571,677,315	69.5
2005	2,471,523,205	2,364,565,064	106,958,141	95.7	592,531,095	18.1

Source: PERS Actuarial Reports for June 30, 2001 through June 30, 2005.
(1) Negative percentage represents excess assets over accrued liabilities.

The following table shows the percentage of salary which the County was responsible for contributing to PERS from Fiscal Year 2003-04 through Fiscal Year 2007-08 to satisfy its retirement funding obligations.

SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Valuation Date June 30,	Affects Contribution Rate for Fiscal Year:	Safety Plan	Miscellaneous Plan
2001	2003-04	17.014	9.786
2002	2004-05	24.390	13.934
2003	2005-06	17.095[(1)]	11.829[(1)]
2004	2006-07	18.031	11.916
2005	2007-08	18.625	12.051

Source: PERS Actuarial Reports for June 30, 2001 through June 30, 2005.

(1) Provided by the County; rates reflect adjustment due to the receipt of $396,874,938 on February 17, 2005 in connection with the issuance of the 2005 Pension Obligation Bonds.

Projected County Contributions and UAAL. **The County's projections with respect to the UAAL below reflect certain significant assumptions concerning future events and circumstances. The financial forecast represents the County's best estimate of projected results based on its judgment of the probable occurrence of future events. The assumptions set forth in the text preceding the chart below are material to the development of the County's projections. Variations in the assumptions may produce substantially different results. Actual results during the projection period may vary from those presented in the forecast, and such variations may be material.**

The PERS actuary, in its June 30, 2005 actuarial valuation, projected that the County's contribution rate under the Safety Plan for the Fiscal Year 2007-08 will be 18.625%, which would result in an approximately 0.594% increase in the contribution rate from Fiscal Year 2006-07. The PERS actuary, in its June 30, 2005 actuarial valuation, projected that the County's contribution rate under the Miscellaneous Plan for the Fiscal Year 2007-08 will be 12.051%, which would result in an approximately 0.135% increase in the contribution rate from Fiscal Year 2006-07. No projections beyond Fiscal Year 2007-08 have been prepared by PERS.

The County's projected contribution rates result principally from two factors. First, there currently exists a difference between the actuarial value and the market value of the assets in the PERS Plans. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments which smooth the impact of gains and losses over multiple years. As of June 30, 2004, the actuarial value of the assets in the Safety Plan was approximately 10.0% in excess of the market value and the actuarial value of the assets in the Miscellaneous Plan was approximately 10.0% in excess of the market value. As a result, even if the market asset return in the PERS Plans is above the actuarial assumed rate of 7.75% in future Fiscal Years, the actuarial practice of smoothing losses over several years may cause the investment rate of return for actuarial purposes to be less than the market asset return. The lower-than-expected investment returns during Fiscal Years 2001-02, 2002-03 and 2003-04 have not been fully realized in the actuarial valuation as of June 30, 2005 and may continue to adversely impact the County's contribution rates in future Fiscal Years.

Second, the County's projected contribution rate in Fiscal Year 2007-08 will also be affected by the market asset return in the PERS Plans during Fiscal Year 2004-05. PERS has publicly reported that the market asset return for all PERS plans was approximately 16.7%, which is substantially above the actuarially assumed rate of return of 7.75%. Since the rate of return is above the assumed rate, the PERS Plans will realize a gain for actuarial purposes. While this actuarial gain will be smoothed such that the PERS Plans will only be impacted by one-fifteenth of that gain in one Fiscal Year, this will likely act to gradually reduce pressure on contribution rates to the succeeding years. For a discussion of the smoothing policy of PERS, see "– The County's PERS Contract" above.

According to the PARC Report dated February 27, 2007, Bartel forecasted that as of June 30, 2007, the County will have a UAAL of $109.6 million for the Miscellaneous Plan and $62.8 million for the Safety Plan, which are expected to contribute to the projected funding status, on a net basis (which includes the County's outstanding pension obligation bond liability), of 97.4% for the Miscellaneous Plan and 96.4% for the Safety Plan. Bartel's forecasts reflect certain significant assumptions concerning future events and circumstances, including the projected annual market rate of return for 2007 which is greater than the assumed actuarial rate of return of 7.75%.

Other Retirement Plans. The County also provides a Defined Benefit Pension Plan (the "Plan") to employees who are not eligible for social security or CalPERS retirement benefits through the County. This plan is subject to Internal Revenue Code Section 401(a), and is self-funded and self-administered. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. Based on the actuarial valuation of June 30, 2006, the County's contribution level is 5.78%. The County's contribution to the Plan was $896,485 for Fiscal Year 2005-06 and is estimated to be $1,918,100 for Fiscal Year 2006-07. The Plan's unfunded liabilities as of June 30, 2006 are approximately $3,153,466.

Other Post Employment Benefits. The County provides certain post-retirement health insurance premium payments to qualifying retired employees and their eligible dependents or survivors. Employees with a minimum service of five years and are at least 50 years of age at retirement qualify to receive the post-retirement benefits. The contributions are funded on a pay-as-you-go basis. The total retiree healthcare plan expenditures for Fiscal Year 2004-05 were approximately $1.2 million for Fiscal Year 2004-05, approximately $1.2 million for Fiscal Year 2005-06 and approximately $1.5 million for Fiscal year 2006-07.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 generally requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most local governments will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. A local government may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the local government's income statement. GASB 45 also established disclosure requirements for information about the plans in which a local government participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain local governments, the extent to which the plan has been funded over time. Accounting for these benefits – primarily postretirement medical benefits – can have significant impacts on state and local government financial statements. These disclosure requirements will be effective for the County beginning in Fiscal Year 2007-08.

The County of Riverside did obtain an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB 45 standards as of January 1, 2006 (the "Health Benefits Valuation"). Based on the combination of plans and contribution levels that the County offers, assuming a 4.5% interest rate, the present value of future benefits was estimated to be $237 million, while the annual normal cost was $10 million. If the accrued actuarial liability of $142 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would be $16 million. Taking the implicit rate subsidy into account, the County's actual payment obligation would be approximately 30% of the amounts above. Approximately 70% of the liability is attributable to the "implicit subsidy," arising from the combination of "pre-65" retirees with active employees for rate purposes For that reason, the Board of Supervisors took action on September 12, 2006 to end the implicit subsidy by separately rating early retiree medical plans as of January 1, 2011. In addition, action was taken on October 25, 2006 to set aside $10 million as a contribution to an OPEB Trust, which is in the process of being established through CalPERS. These actions are expected to reduce the County's OPEB liabilities to below $50 million. A revised actuarial valuation as of January 1, 2007 is expected within 60 days.

Medical Center

At June 30, 2006, the Riverside County Regional Medical Center (the "RCRMC") reflected unrestricted net assets of approximately $40 million for Fiscal Year 2005-06. RCRMC had a cash balance of approximately $38 million as of June 30, 2006. In Fiscal Year2005-06, RCRMC had a change in net assets of $23.4 million. RCRMC continues to experience growth in patient collections in Fiscal Year 2006-07. RCRMC anticipates $20 million change in net assets and a cash balance of approximately $65 million at the end of Fiscal Year-07. Future cash balance, may be reduced as a result of the Federal-State Medi-Cal Waiver (the "Waiver") that became effective in Fiscal Year 2005-06. The exact cash balance at the end of Fiscal Year 2007-08 will depend upon the State's meeting certain Waiver requirements and timely cash payments thereunder.

The Board approved budget includes a General Fund contribution of $31 million to address potential future shortfalls. Due in part to continued changes to federal and State funding, RCRMC will continue to have an impact on the County's General Fund. The required contributions to the RCRMC Enterprise Fund from the County's General Fund are expected to continue indefinitely. The County and the RCRMC management teams continue to improve new procedures designed to improve cash flow and control costs.

One significant element of the Fiscal Year 2007-08 Final Budget (scheduled to be adopted on June 26, 2007) is the securitization of tobacco settlement revenue to fund jail construction. The $16.6 million tobacco settlement revenue that the hospital currently receives is used for debt service and operations. Beginning in Fiscal Year 2007-08, the $10 million used for debt service will be protected and the remaining $6.6 million will be used to fund jail bed construction, through securitization. RCRMC management agrees with this financing plan, which protects revenue needed for debt service while also providing for jail bed construction. The new budget also grants the hospital a one-time $6.6 million for capital projects (or operations if necessary).

Insurance

The County is self-insured for short-term disability, unemployment insurance, general liability, medical malpractice and workers' compensation claims. General liability claims are self-insured to $1 million for each occurrence and the balance (to $25 million for each occurrence) is insured through CSAC Excess Insurance Authority. Medical malpractice is self-insured for the first $1.1 million for each claim and insured for the balance to $20 million for each claim on a claims basis, through CSAC Excess Insurance Authority. Workers' compensation claims are self-insured to $2 million for each occurrence and the balance (to $100 million for each occurrence) is insured through CSAC Excess Insurance Authority. Long-term disability income claims are fully insured by an independent carrier.

The activities related to such programs are accounted for in internal service funds. Accordingly, estimated liabilities for claims filed or to be filed for incidents which have occurred through June 30, 2006 are reported in these funds. Where these funds have an unfunded liability, or insufficient reserves to cover all incurred but not reported claims, the County has developed a policy to manage the accumulated deficits at a reasonable level. Revenues of the internal service funds are primarily provided by other County funds and are intended to cover self-insured claim liabilities, insurance premiums and operating expenses. The combined cash balance in these funds as of June 30, 2006 was $158.1 million.

APPENDIX B

COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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County of Riverside, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

Prepared by the Office of:

Robert E. Byrd, CGFM
County Auditor-Controller

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COUNTY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2006

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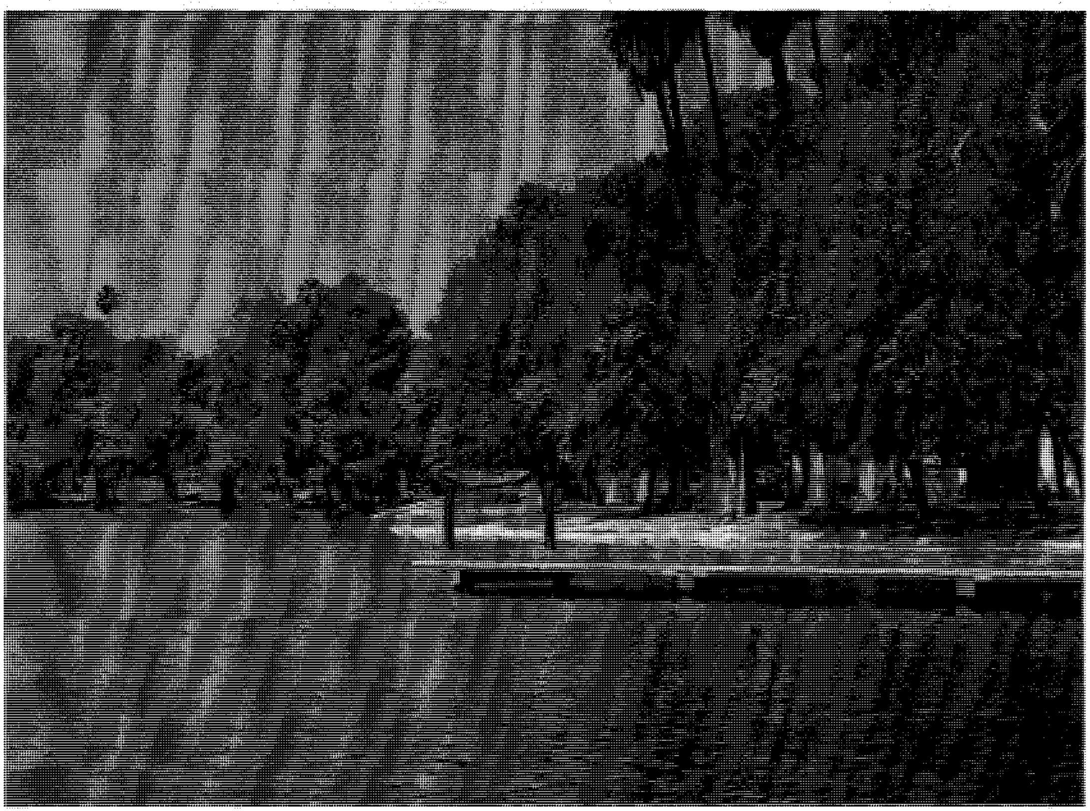

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Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, CPA
ASSISTANT AUDITOR-CONTROLLER

December 28, 2006

The Honorable Board of Supervisors
Citizens of the County of Riverside
4080 Lemon Street, 5th Floor
Riverside, California 92501

Members of the Board and Citizens of the County of Riverside:

The Comprehensive Annual Financial Report of the County of Riverside for the Fiscal Year Ended June 30, 2006 is hereby submitted in accordance with Section 25253 of the Government Code of the State of California. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the County of Riverside (the County). To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and changes in financial position of the various funds and component units of the County of Riverside. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical sections.

- The Introductory Section includes the transmittal letter, a list of principal officials, the County of Riverside's organizational chart, and a copy of the Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2005.

- The Financial Section includes the independent auditor's report on the basic financial statements, management's discussion and analysis (Required Supplementary Information), basic financial statements that include the financial statements of the County's governmental and business-type activities, the County's discretely presented component unit, each major fund, the aggregate remaining fund information of the County and budgetary comparison statements of the general fund as of June 30, 2006. Also included is other required supplementary information (Retirement Plan Schedules of Funding Progress for the defined benefit pension plans), and other supplementary information. Included in other supplementary information are combining and individual non-major fund financial statements as well as budgetary comparison schedules.

- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

The County of Riverside is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of*

States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal awards, findings, questioned costs, and the independent auditor's report on internal control and compliance, are included in a separate annual publication.

Generally Accepted Accounting Principles (GAAP) for local governments require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements. The introduction, overview, and analysis are presented in the form of the management's discussion and analysis (MD&A). The letter of transmittal was designed to compliment and to be read in conjunction with the MD&A. The MD&A immediately follows the report of the independent auditors.

The financial reporting entity for the County includes all the funds of the primary government--the County of Riverside as legally defined-- as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

The County has eleven (11) independent fiscal entities that are considered blended component units and one discretely presented component unit. These entities vary widely in function and provide essential services.

For a more detailed overview of the County's component units see the MD&A and the notes to the basic financial statements.

PROFILE OF THE GOVERNMENT

Riverside County, the State's fourth largest county by area, encompasses 7,295 square miles and extends 184 miles across Southern California, from the Arizona border west to within 10 miles of the Pacific Ocean. It is situated immediately east of Los Angeles and Orange Counties, south of San Bernardino County, and north of San Diego and Imperial Counties. There are 24 incorporated cities located within the County. The largest cities in the County are the cities of Riverside (the County seat) with a population of 287,820, Moreno Valley with a population of 174,565, and Corona with a population of 144,661.

Total County population was 1,939,814 on January 1, 2006, an increase of 3.3% compared to the revised estimate for 2005 from the California State Department of Finance. Estimated population figures are developed by the State as of January 1 of each year with a revised estimate for the prior year. Approximately 27% of the residents live in the unincorporated area. The County is part of the Riverside-San Bernardino Primary Metropolitan Statistical Area (PMSA), which includes all of Riverside and San Bernardino Counties. The PMSA has large and rapidly expanding trade, transportation, utilities, distribution and manufacturing industries.

Total nonfarm employment in the PMSA rose 18.6% from March 2000 to March 2006, while the population increased by 25.5% in the County from January 1, 2000 to January 1, 2006. As of June 2006, unemployment in the PMSA was 5.1% (revised on an annual basis by the Employment Development Department Labor Market Information Division) as compared to 5.0% for the United States.

PLANNING AND GROWTH MANAGEMENT

Strategic Plan

The County Strategic Plan ("Strategic Vision") was adopted by the Board of Supervisors in December 1998, and was revised in April 2000. This plan encompasses all areas of County operations with the general goal of improving the quality of services, increasing efficiencies, as well as improving communication and coordination between County agencies and other units of local government.

The Riverside County Integrated Project

The County continues to develop and implement components of the Riverside County Integrated Project (RCIP). The RCIP is a multi-year comprehensive planning project that includes the following components: the County's General Plan of Land Use, a Western Riverside County Multi-Species Habitat Conservation Plan (MSHCP), a regional transportation plan (CETAP), and watershed protection plan (SAMP). The RCIP is closely coordinated with regional councils of government, state and federal government agencies, and private stakeholders.

Following a series of public hearings, the Board of Supervisors adopted the MSHCP on June 17, 2003. A Regional Conservation Authority to implement the MSHCP was formed on June 22, 2004. Work is continuing on the CETAP and SAMP. The General Plan was adopted by the Board of Supervisors on October 7, 2003 and requires updates every five years. The next update is due in 2008. The County will be overhauling its land use ordinance (No. 348) to effectively implement the new general plan policies and hold consistency zoning hearings to adopt property-specific zoning that is consistent with the new plan.

Trial Court Facilities

On September 30, 2002, Governor Gray Davis signed the Trial Court Facilities Act of 2002 (SB 1732). This landmark legislation transfers the governance of California's more than 450 courthouse facilities from the counties to the state. Although the bill became effective on January 1, 2003, it is expected that the transition time will take up to seven years. The County and the Judicial Council of the State of California have been negotiating transfer agreements since July 1, 2003, and will continue through June 30, 2007. The transfer of courthouse facilities to the Judicial Council must be completed by June 30, 2007.

The County's transfer plan includes the transfer of the court facilities and associated parking. During fiscal year ending June 30, 2006, the Moreno Valley Court was transferred. Last year, Larson Justice Center was the first court facility in the County to be transferred and the second court transfer throughout the State. Some important areas to consider with each facility to be transferred are bonded indebtedness, deferred maintenance, and capital projects. Once each facility is transferred, the County's financial obligation to court facilities is capped as a maintenance-of-effort amount established under the legislation. Although the County continues to contribute to trial court funding through maintenance of effort obligations, the restructuring of court funding ends a dual system of County and state funding. These funds are accounted for in the agency funds.

Development Agreement Fees

In December 1987, the Board of Supervisors adopted procedures consistent with provisions of the California Government Code Section 65864 et al. for consideration of development agreements. As a legal contract between the County and a developer, a development agreement was intended to strengthen the public planning process, encourage private participation in comprehensive planning, reduce the economic costs of development, and promote the maximum efficient utilization of resources at the least economic cost to the public. In February 1988, the Board of Supervisors adopted a schedule of development agreement fees payable on residential projects prior to issuance of building permits, in the amount of $5,784 per residential unit. Effective January 1, 2006, the fee, based on an adjusted consumer price index, was $6,976 and consisted of the following components:

	Development Agreement Fee
Public Facilities	$ 3,084
Regional Parklands and Trails	569
Habitat Conservation and Open Space Land Bank Offset	423
Public Services Offset	2,900
Total	$ 6,976

Based on renegotiated development agreements, fees range from $3,770 to $6,976 with some component deletions.

With the exception of the public services offset, development agreement revenue will be used to help the County construct capital facilities and acquire parkland, trails, habitat, and open space to meet the demand caused by new growth and development. The public services offset is intended to help defray the cost of providing governmental services, such as sheriff's patrol services. As of June 30, 2006, the total of unexpended and uncommitted development agreement money available in capital project funds is $1.0 million.

Development Mitigation Fees

Ordinance 810

In March 2001, the Board of Supervisors adopted Ordinance 810 establishing an interim open space mitigation fee. This ordinance was amended on November 26, 2002, and again on July 22, 2003. The most recent amendment was due to implementation of the Western Riverside County Multiple Species Habitat and Conservation Plan. Collection of the fee is performed by both the County and cities within the County. Responsibility for accounting has been transferred to the Riverside Conservation Authority. Riverside Conservation Authority is a joint powers authority formed between the County and various cities in the western county area. Reporting of the Ordinance 810 fees in this section references those collected before June 22, 2004, which was when Ordinance 810.2 went into effect. Fees are no longer collected for Ordinance 810.1.

As of June 30, 2006, the total amount of unexpended, uncommitted, interim open space mitigation funds related to Ordinance 810 and 810.1 is $0.

Ordinance 659

In July 1988, the Board of Supervisors adopted Ordinance No. 659 establishing a county-wide (unincorporated area only) development mitigation fee for residential development. The purpose of this fee was to finance the construction of county facilities necessary to accommodate future residential growth in the County. Fee revenues will also be used for the procurement of parklands and the development of recreational trails. In addition, fee revenues will be used for the preservation of habitat, open space, and for the preservation of specifically-listed plants and animals as outlined in the general plan. Development mitigation fees are no longer collected and have been superseded with the passage of Ordinance 659.6, development impact fees.

As of June 30, 2006, the total of unexpended, uncommitted, development mitigation funds related to Ordinance 659 in capital project funds is about $250,000.

Development Impact Fees

In September 2001, the Board of Supervisors adopted Ordinance 659.6 establishing a county-wide (unincorporated area only) development impact fee for residential development. Ordinance 659.6 replaced and superseded those fees associated with Ordinance 659. Ordinance 659.6 became effective sixty (60) days after adoption.

Development impact fees are collected to address impacts associated with residential, commercial, and industrial development throughout the unincorporated county region and are used for the purpose of constructing or acquiring needed facilities and preserving open space, wildlife and their habitats.

Fees are assessed by unit for single-family and multiple-family residential development, and by acre for commercial and industrial development. Fees vary according to the area plan under development. There are 20 area plans. The range for single-family residential development impact fees is from $3,252 to $5,267 per unit. The range for multiple-family residential development impact fees is $2,728 to $4,586 per unit. Commercial development impact fees range from $17,332 to $26,085 per acre and the range for industrial development impact fees is from $9,064 to $13,636 per acre.

Fees collected under Ordinance 659.6 can only be used for those projects identified and listed within the public facilities needs list through the year 2010. Changes to the list may occur on an annual basis and are subject to approval by the Board of Supervisors. Annual inflationary adjustments are authorized through Ordinance 659.6 and are subject to published indices of the consumer price index, the building cost index, and the construction cost index. Since adoption of the development impact fees, there have been no changes in the amount charged. As of June 30, 2006, the total unexpended, uncommitted, development impact fees was about $66.0 million.

FINANCIAL INFORMATION

Internal Control

The management of the County is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft, or misuse. Management is also responsible for ensuring that adequate accounting data are compiled to allow for the preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state assistance, the County is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to on-going evaluations by management and the internal audit staff of the County.

As part of the single audit, tests were made to obtain reasonable assurance about whether the County met the compliance requirements of OMB Circular A-133. The single audit for fiscal year ending June 30, 2005, reported that the County complied, in all material respects, with the requirements of OMB Circular A-133 applicable to each of its major federal programs. However, the audit disclosed instances of noncompliance with the requirements for sub-recipient monitoring over one federal program, and one instance of noncompliance with the maintenance of policies and procedures for another program. The single audit for fiscal year ending June 30, 2006 is in process and will be issued in a separate report.

Budgetary Controls

The objective of budgetary controls is to ensure that the annual appropriated budget approved by the County Board of Supervisors is in compliance with the legal provisions of Section 29088-29091 of the Government Code. The County budget is prepared and adopted on or before October 2 of each fiscal year, except as provided by state statutes and Board of Supervisors resolutions. The budget for fiscal year 2006-07 was adopted on June 27, 2006. Activities of the general fund, all special revenue funds, certain debt service, and capital projects funds are included in the annually appropriated budget. The level of budgetary control, or the level that cannot be exceeded without action by the Board of Supervisors, is the appropriation level of the budget unit. The budget unit represents an organization within a department or an agency. The Board of Supervisors must approve transfers of appropriations between budget units and supplemental appropriations financed by unanticipated revenues. Transfers of appropriations between appropriation classifications within the same budget unit are approved by the County Executive Officer. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Unencumbered appropriations lapse at year-end and fund balances are reserved for encumbrances outstanding at that time. As demonstrated by the statements and schedules included in the financial section of this report, the County continues to meet its responsibility for sound financial management.

For a more detailed overview and analysis of the County of Riverside's financial position see the MD&A preceding the basic financial statements.

General Fund Cash Balance and Fund Balance

The cash balance of the general fund increased from $184.7 million at June 30, 2005 to $257.1 million at June 30, 2006. This increase is attributable primarily to a favorable real estate market that generated more property tax and related documentary transfer fee revenue, than expected, increase in motor vehicle in-lieu tax and improved yield on investments. The County's general fund fund balance represents the equivalent of 59 working days of expenditures.

Cash Management

Per State law, the County Treasurer holds and manages the County's cash and investments. The portfolio shall be actively managed in a manner that is responsive to the public trust and consistent with State law. The first and primary objective of the Treasurer's investment of public funds is to safeguard investment principal; second to maintain sufficient liquidity within the portfolio to meet daily cash flow requirements, and third, to achieve a reasonable rate of return or yield on the portfolio consistent with these objectives. In accordance with its investment policy, the County manages its interest rate risk by limiting the weighted average maturity of its investment portfolio to less than 1.5 years. The weighted average maturity as of June 30, 2006 was .79 years. To provide sufficient liquidity to meet daily expenditures, the portfolio shall maintain at least 40% of its total value in securities having maturities 1 year or less. Securities maturing in less than one year totaled 69%. The Treasurer's pooled investment fund is currently rated Aaa/MR1 by Moody's Investor Services and AAA/V1+ by Fitch ratings.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Pools, school district and special district external investment pools are reported as investment trust funds. Of the Treasurer's total cash and investments pool of $4.2 billion at June 30, 2006, $2.3 billion relates to the external investment pool participants, which includes mandatory and discretionary depositors.

Restrictive investment policies are in place to minimize credit and market risks while maintaining a competitive yield on the portfolios. The County Treasurer's selection of investments is more restrictive than those authorized in Sections 53601 and 53635 of the California Government Code and gives primary consideration to the safety and preservation of the principal amounts invested. On-going cash flow projections are maintained for the coming twelve months to assure that adequate funds are available to meet daily cash expenditure requirements. The investment policies are reviewed and updated annually.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investments and reports its findings to the Board. The Oversight Committee has reviewed and approved investment policies for funds held outside the County Treasury.

State statutes, specific debt financing indentures and contractual arrangements generally determine the investment restrictions of County cash and investments not held in the County Treasury.

Retirement Plan

The County of Riverside contributes to the California Public Employees Retirement System (PERS). PERS is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All full-time, and some part-time and seasonal benefited County employees are eligible to participate in the system. Generally, temporary hourly employees, and part-time employees working less than 20 hours per week, cannot participate in the system unless 1,000 hours are worked in a fiscal year. Certain other employees, such as per diem medical and dental personnel, crossing guards and service aides, are specifically excluded from participation in the system, regardless of the number of hours worked. Benefits are vested after five years of service. Eligible County employees who retire at or after fifty years of age with five years of credited service are entitled to an annual retirement benefit payable monthly for life. Miscellaneous member (non-prosecution unit) employees hired after January 9, 1992 make their own contributions for the first five years. Miscellaneous prosecution unit employees hired on or after September 3, 1992 make their own contributions for the first year, as well. With some exceptions, safety member employees hired after June 25, 1992, make their own contributions for the first three years. For certain bargaining units, the County makes the contribution required of the employees on their behalf, regardless of hire date.

The employee contribution rate for the 401(a) defined benefit retirement plan for part-time/temporary employees is 3.75%. The employer's contribution rate is currently 5.03% of base earnings (excludes overtime and earnings exceeding the social security base of $90,000 for calendar year 2005, $94,200 for calendar year 2006, and $97,500 for 2007).

Risk Management

The County maintains a comprehensive risk management program under the full-time direction of a professional risk manager. The County self-insures the primary layers for general liability (including auto), medical malpractice and workers' compensation. The County purchases all-risk property insurance that includes flood, a level of earthquake, boiler, and machinery coverage subject to various deductibles. The County records estimated liabilities for claims filed, and for incurred but not reported (IBNR) claims. Additionally, the County self-insures unemployment insurance and short-term disability income benefits.

The County purchases policies of excess insurance for medical malpractice, general liability, including auto and workers' compensation. Medical malpractice utilized a policy that provided annual coverage on a claims-made basis prior to FY1998-99. Effective July 1, 1998, the County's medical malpractice coverage changed to an occurrence basis with all prior acts coverage. Effective October 2002, the medical malpractice insurance program returned to a claims-made basis. In addition, the County purchases specialty coverage for aviation and watercraft liabilities, fidelity crime bond and long-term disability benefits.

The County participates in the California State Association of Counties (CSAC) Excess Insurance Authority's (CSAC-EIA, a Joint Powers Authority) programs for excess liability, medical malpractice, worker's compensation, primary and excess property programs. CSAC-EIA provides some support services for selected programs, such as: excess disability, medical malpractice annual audits, risk management in-services for medical malpractice as well as loss prevention resources for general liability. Additionally, CSAC-EIA subsidizes participating counties for actuarial studies on a two (2) year basis.

The activities related to the County's programs are accounted for in internal service funds (ISF). Accordingly, estimated liabilities for claims filed or to be filed for incidents that have occurred through June 30, 2006, are reported in these funds. Where certain funds have a retained earnings deficit or insufficient reserves, the County has provided a funding plan or the County may elect to increase charges. However, when funding exceeds the approved confidence level, departments are given a rate holiday or a reduced rate charge. Revenues of these internal service funds primarily originate from user charges to departments/agencies/special districts and are intended to cover self-insured claim liabilities, insurance premiums, and operating expenses.

OTHER INFORMATION

Independent Audit

The County of Riverside contracted for its annual audit with the independent certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. In addition to meeting its contractual requirements for the audit of the basic financial statements, the audit is also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133. The auditors' report on the basic financial statements, required supplementary information, and other supplementary information is included in the financial section of this report. A separate report relating to the single audit is available in the County Auditor-Controller's Office.

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Riverside for its Comprehensive Annual Financial Report for the year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance to the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The County of Riverside has received a Certificate of Achievement for the last eighteen consecutive years. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for a nineteenth certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report could not be accomplished without the dedicated service of the entire staff of the Auditor-Controller's Office. My particular appreciation to staff that spent many late nights and weekends working on the preparation of this report. I would also like to thank the staffs of the contributing component units and departments for their participation in the preparation of this report.

I would also like to express my appreciation to the Board of Supervisors and County Executive Officer for their vision and support in the planning and administration of the financial operations of the County of Riverside. Their exemplary leadership has kept the County on sound financial footing and well positioned as we address the challenges of the 21st century.

Finally, I would like to thank our independent auditors, Vavrinek, Trine, Day & Co., LLP, for their efforts throughout this audit engagement.

Respectfully yours,

Robert E Byrd

ROBERT E. BYRD, CGFM
COUNTY AUDITOR-CONTROLLER

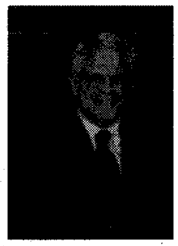
COUNTY OF RIVERSIDE

List of Principal Officials
As of June 30, 2006

ELECTED OFFICIALS

Board of Supervisors

JEFF STONE
Third District



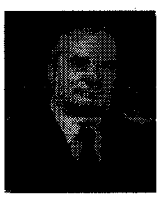
BOB BUSTER
Chairman
First District

JOHN F. TAVAGLIONE
Vice Chairman
Second District

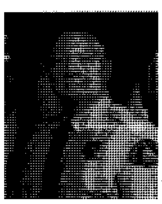
ROY WILSON
Fourth District

MARION ASHLEY
Fifth District

COUNTY-WIDE ELECTED OFFICIALS



GROVER TRASK
District Attorney



BOB DOYLE
Sheriff
Coroner
Public Guardian

ROBERT E. BYRD
Auditor – Controller

LARRY WARD
Assessor
County Clerk
Recorder

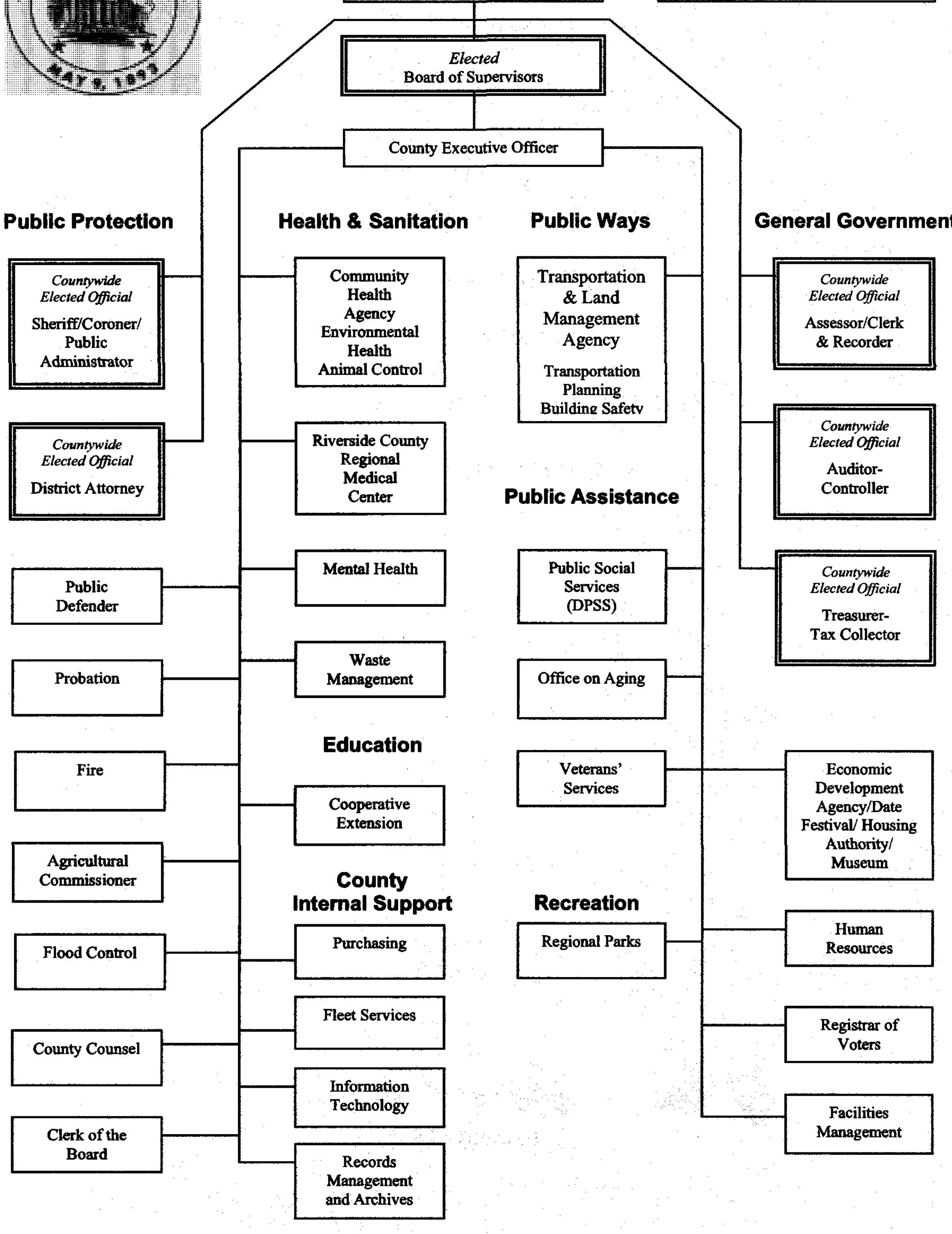
PAUL MCDONNELL
Treasurer
Tax Collector

APPOINTED OFFICIALS

LARRY PARRISH
County Executive Officer

JOE S. RANK
County Counsel

COUNTY OF RIVERSIDE ORGANIZATION CHART



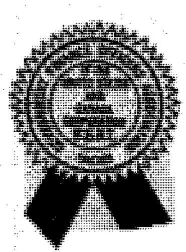
Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Riverside California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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FINANCIAL SECTION

PHOTOGRAPHER:
Richard Paul
LOCATION:
Anza Narrows Park
Riverside, CA

vtd
Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
County of Riverside, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Riverside, California (the County), as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Riverside County Flood Control and Water Conservation District (Flood Control District), Housing Authority of the County of Riverside (the Housing Authority), Riverside County Regional Park and Open-Space District (the Park District), and County of Riverside Redevelopment Agency (the RDA), which represent the following percentages, respectively, of the assets and revenues of the following opinion units:

Opinion Unit	Assets	Revenues
Governmental Activities	26%	8%
Business-type Activities	7%	15%
Aggregate Remaining Fund Information	9%	1%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Flood Control District, Housing Authority, Park District, and RDA are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

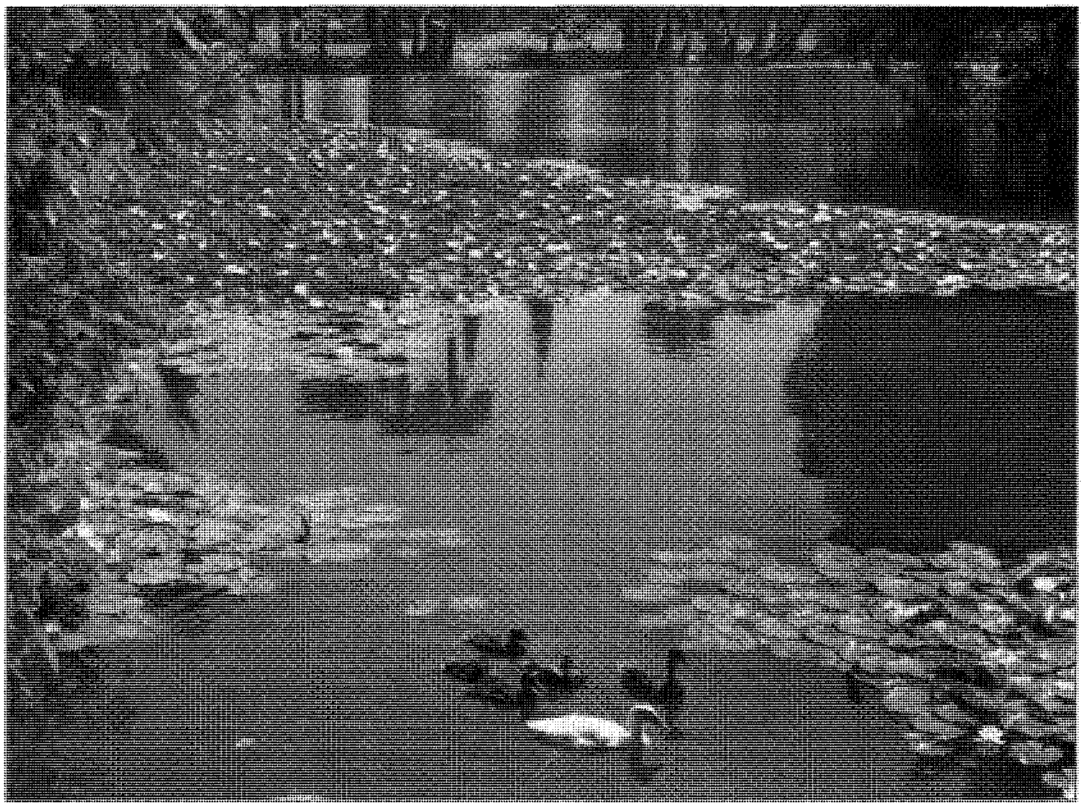
The management's discussion and analysis and schedules of funding progress listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining fund financial statements and schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS



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Helen Christmon
LOCATION:
Fairmount Park
Riverside, CA

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MANAGEMENT'S

DISCUSSION AND ANALYSIS

The information in this section is not covered by the Independent Auditor's Report. It is presented as required supplementary information for the benefit of the readers of the Comprehensive Annual Financial Report.

Management's Discussion & Analysis *(Unaudited)*

This section of the County of Riverside's Comprehensive Annual Financial Report presents a narrative overview and analysis of the County's financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the Letter of Transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

In addition, the following supplemental information has been included in this report:

- Other Required Supplementary Information – Retirement Plan Schedules of Funding Progress
- Combining Statements for Nonmajor Governmental, Nonmajor Enterprise and Fiduciary funds
- Combining Statements and Schedules for Special Revenue, Debt Service, Capital Projects, Internal Service, and Fiduciary funds
- Statistical Section

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities)*. The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture services. Governmental activities include four major funds, twenty-one nonmajor funds, and a representative allocation of the County's internal service funds. The four major Governmental funds are the General Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund and Redevelopment Capital Projects Fund. The business-type activities of the County include two major enterprise funds, and three nonmajor funds. The major enterprise funds are the Regional Medical Center and Waste Management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Although blended component units are legally separate entities, they are, in substance, part of the County's operations. Accordingly, the financial information from these units is combined with financial information of the primary government.

The financial information for the Children and Families Commission, a legally separate component unit that is appointed by and serves at the will of the County, is discretely presented separately from the financial information of the primary government. The Commission is shown as a discretely presented component unit due to the financial benefit/burden relationship with the County.

The blended component units are:

- County of Riverside Asset Leasing Corporation (CORAL)
- County of Riverside District Court Financing Corporation
- County of Riverside Bankruptcy Court Corporation
- Housing Authority of the County of Riverside
- In-home Supportive Services Public Authority
- Redevelopment Agency for the County of Riverside
- Riverside County Desert Facilities Corporation (dissolved in fiscal year 2005-06)
- Riverside County Flood Control and Water Conservation District (Flood Control)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority
- Riverside County Service Areas

Fund Financial Statements provide information regarding the three major categories of County funds—governmental, proprietary and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in GASB Statement No. 34. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting is also used to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements often have a budgetary orientation, are prepared on the modified accrual basis of accounting, and focus primarily on the sources, uses, and balances of current financial resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures and changes in fund balances provided are accompanied by a reconciliation to government-wide financial statements in order to facilitate this comparison between *governmental funds* and *governmental activities.*

The County maintains several individual governmental funds organized according to their type (general, special revenue, debt service and capital projects funds). The governmental fund statements present the financial information of each major fund (the General Fund, Teeter Debt Service Fund, Public Facilities Improvements Capital Projects Fund and Redevelopment Capital Projects Fund) in separate columns. Financial information for the remaining governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the Supplementary Information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the County's annual estimated revenue and appropriation budgets for all governmental funds except CORAL, District Court Project, and Bankruptcy Court. The budgetary comparison statements have been provided to demonstrate compliance with the budget.

Proprietary funds are used to account for services for which the County charges customers – either outside customers or internal departments of the County. Proprietary funds statements provide the same type of information as shown in the government-wide financial statements, in more detail. The County maintains the following two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Regional Medical Center (RMC), Waste Management, County Service Areas, Housing Authority, and Flood Control. RMC and Waste Management financial statements are reported in separate columns of the proprietary fund statements due to the materiality criteria defined by GASB Statement No. 34. Individual fund statements for County Service Areas, Housing Authority, and Flood Control are presented in the Supplementary Information section.

- *Internal service funds* are used to report activities that provide supplies and services for certain County programs and activities. The County uses internal service funds to account for its records and archive management, fleet services, information services, printing and mail services, supply services, OASIS Project (accounting and human resources information system), risk management, temporary assistance pool and flood control equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated, presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the Supplementary Information section.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's programs nor be reflected in the government-wide financial statements. Fiduciary funds maintained by the County include a pension trust fund, investment trust funds, private-purpose trust funds, and agency funds. The fiduciary fund financial statements are presented on the economic resources measurement focus and the accrual basis of accounting.

Notes to the Basic Financial Statements provide additional information other than that displayed on the face of the financial statements and are essential for fair presentation of the financial information in the government-wide and fund financial statements.

Required Supplementary Information, in addition to this MD&A, presents schedules of retirement plan funding progress.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year the assets of the County, $5 billion, exceeded its liabilities, $2.4 billion, by $2.6 billion (net assets). Of this amount $1.1 billion (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors; $623.3 million (restricted net assets) is restricted by external sources or through enabling legislation for specific purposes and $971.8 million is invested in capital assets, net of related debt.

- During fiscal year 2005-06 the County's net assets increased $401.7 million. Of this amount, $375.9 million was from governmental activities and $25.8 million was from business-type activities. Countywide expenses of $2.6 billion were substantially offset by program revenues of $2.2 billion leaving an operating deficit of $471.8 million. The operating deficit was offset by general revenues of $873.5 million resulting in the increase in net assets.

- As of June 30, 2006, the total fund balances of the governmental funds were $1.4 billion. This represents an increase of 28.8% or $313.3 million, in comparison with the prior year. Approximately 12.7% or $178.3 million of the combined fund balances was available to meet the County's current and future needs (*unreserved-undesignated fund balance*).

- As of June 30, 2006, fund balance for the General Fund was $446.9 million or 23.6% of the total General Fund expenditures. This amount includes $100.4 million of reserved fund balance and $277.8 million of designated fund balance.

- The County's long-term debt showed a net increase of 8.5% or $122.4 million compared to the prior year. These obligations are bonds payable, capital leases, certificates of participation and loans payable.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* changed both the recording and the presentation of financial information. A comparative analysis has been presented for the government-wide financial statements.

Analysis of Net Assets – Net assets may serve as a useful indicator of a government's financial position. At the end of the current fiscal year, the County reported positive net assets balances for both governmental and business-type activities, with total assets exceeding liabilities by $2.7 billion.

The County's total net assets increased 17.6%, or $401.7 million, during fiscal year 2005-06 compared to the prior year's increase of 18.8%, or $286.4 million. $375.9 million of the increase in net assets was from governmental activities and $25.8 million was from business-type activities. For the prior year, $249.7 million of the increase in net assets was from governmental activities and $36.8 million from business-type activities. Below are the three components of net assets and their respective fiscal year-end balances:

- **Invested in capital assets net of related debt** represents 36.3%, or $971.8 million, of the County's total net assets for fiscal year 2005-06 compared to 24.2%, or $437.3 million, for fiscal year 2004-05. The component consists of capital assets (land and easements, structures and improvements, infrastructure, and equipment) net of accumulated depreciation and reduced by any debt attributable to the acquisition, construction, or improvement of the assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

- **Restricted net assets** account for 23.3%, or $623.3 million, of the County's total net assets for fiscal year 2005-06 compared to 34.9% or $629.8 million for fiscal year 2004-05. This component of net assets represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** account for 40.5%, or $1.1 billion of the County total net assets for fiscal year 2005-06 compared to 40.9%, or $739.4 million, for fiscal year 2004-05. This component of the County's total net assets may be used to meet the County's ongoing obligations to citizens and creditors. Of the unrestricted net assets for fiscal year 2005-06, $1.0 billion is from governmental activities and $86.0 million is for business-type activities compared to $671.9 million for governmental activities and $67.5 million for business-type activities for the prior year.

The table below provides summarized data from the Statement of Net Assets:

Statement of Net Assets
June 30, 2006
(in thousands)

	Governmental Activities		Business-type Activities		Total		%
	2006	2005	2006	2005	2006	2005	Variance
Current and other assets	$ 2,454,916	$ 2,317,001	$ 279,401	$ 240,646	$ 2,734,317	$ 2,557,647	7%
Capital assets	2,060,660	1,404,702	249,474	242,390	2,310,134	1,647,092	40%
Total assets	4,515,576	3,721,703	528,875	483,036	5,044,451	4,204,739	20%
Other liabilities	387,261	586,337	34,589	28,974	421,850	615,311	-31%
Long-term liabilities	1,615,486	1,471,246	326,042	311,615	1,941,528	1,782,861	9%
Total liabilities	2,002,747	2,057,583	360,631	340,589	2,363,378	2,398,172	-1%
Net assets:						-	
Invested in capital assets,						-	
net of related debt	930,800	407,762	40,986	29,583	971,786	437,345	122%
Restricted	582,037	584,441	41,287	45,362	623,324	629,803	-1%
Unrestricted	999,992	671,917	85,971	67,502	1,085,963	739,419	47%
Total net assets	$ 2,512,829	$ 1,664,120	$ 168,244	$ 142,447	$ 2,681,073	$ 1,806,567	48%

Governmental Activities

Revenues: The County's governmental activities rely on the following sources of revenue to finance ongoing operations:

- Operating Grants and Contributions are revenues received from parties outside of the County, such as State and Federal agencies, and are generally restricted to one or more specific programs. These revenues were the largest governmental activities revenue source for fiscal year 2005-06 with a total of $1.1 billion being earned. Public Assistance received 54.7% of the governmental activity funding for fiscal year 2005-06 compared to 57.9% of the governmental activity funding from this source in the prior year. Public Protection received 23.4% of the governmental activity funding for fiscal year 2005-06, compared with 22.4% for fiscal year 2004-05.

- A total of $558.7 million was earned as governmental activity charges for services compared to $445.7 million for fiscal year 2004-05. Charges for services are revenues that arise from charges to external customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Public Protection, which is primarily generated through contracted law enforcement services provided by the Sheriff's Department to various local governments, generated 51.3% of this revenue source, compared to 52.9% from the prior year. General government generated 31.3% compared to 28.3% for prior year.

- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with $31.0 million earned for fiscal year 2005-06 compared to $64.3 million earned for fiscal year 2004-05. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2005-06, 96.8% of the revenue, or $30.0 million, as compared to 51.7%, or $33.2 million, for fiscal year 2004-05, was received for public ways and facilities programs and is primarily related to the construction and acquisition of infrastructure capital assets.

- General revenue related to governmental activities primarily consists of taxes, contractual revenue from City Redevelopment Agencies, other revenues, and investment earnings. Property tax revenue is the largest governmental activities general revenue with $396.2 million earned during the year, an increase of 25.9% or $81.5 million, as compared to the $314.7 million earned in fiscal year 2004-05. This increase is primarily attributable to higher assessed property values combined with a significant increase in new development. Motor vehicle in-lieu of taxes revenue increased 27.8% from $172.3 million in fiscal year 2004-05 to $220.2 million in fiscal year 2005-06.

<u>Expenses:</u> Total program expenses for governmental activities were $2.2 billion for the current fiscal year as compared to $2.0 billion for the prior fiscal year, an increase of 11.8% or $231.9 million. 36.4%, or $801 million of total governmental activities expenses were for Public Protection; 28.8% or $634.5 million for Public Assistance; 16% or $350.5 million for Health and Sanitation and 11.8% or $260.0 million for General Government.

Business-type Activities

<u>Revenues:</u> The County has two major business-type activities: The Riverside County Regional Medical Center (RMC), and Waste Management. In addition, Flood Control, County Service Areas, and Housing Authority are included in the business-type activities of the County. Business-type activities recover all or a significant portion of their costs through user fees and charges and provide services primarily to non-County entities. For the current year, 99.9%, $465.4 million, of business-type activities program revenue was received from charges for services, as compared to 100%, $480.5 million for the prior fiscal year. The majority of this revenue, $330.1 million, was received by RMC as compared to $354.5 million for the prior fiscal year.

<u>Expenses:</u> Total expenses for business-type activities were $426.3 million for the fiscal year compared to $479.3 million for the prior fiscal year. This represents a decrease of 11.0% or $53.0 million. 68.3%, or $291.0 million, of total expenses were incurred by RMC compared to 74.3%, or $356.3 million, for the prior fiscal year. In addition, expenses for the Housing Authority were 14.8% of total expenses for business-type activities or $62.9 million compared to 13.0% or $62.2 million for the prior year; Waste Management Department was 15.6% or $66.5 million compared to 11.6% or $55.6 million the prior year. Flood Control and County Service Areas account for the remaining 1.4% of expenses, a percentage consistent with the prior fiscal year.

Management's Discussion & Analysis *(Unaudited)*

The following table provides summarized information from the Statement of Activities:

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006
(In thousands)

	Governmental Activities		Business-type Activities		Total		
	2006	2005	2006	2005	2006	2005	Variance (%)
Revenues:							
Program revenues:							
Charges for services	$ 558,739	$ 445,711	$ 465,391	$ 480,455	$ 1,024,130	$ 926,166	11%
Operating grants and	1,100,674	983,290	-	-	1,100,674	983,290	12%
Capital grants and contributions	31,001	64,252	227	-	31,228	64,252	-51%
General revenues:							
Property taxes	396,167	314,666	-	-	396,167	314,666	26%
Sales and use taxes	44,286	33,091	-	-	44,286	33,091	34%
Other taxes	15,603	13,885	-	-	15,603	13,885	12%
Contractual revenue - RDA	16,332	13,281	-	-	16,332	13,281	23%
Motor vehicle in-lieu taxes	220,190	172,265	-	-	220,190	172,265	28%
Fines, forfeitures, and penalties	-	70,578	-	-	-	70,578	-100%
Investment earnings	78,288	39,907	6,381	4,234	84,669	44,141	92%
Proceeds sale of capital assets	-	(18,407)	-	346	-	(18,061)	-100%
Other	96,265	117,737	-	-	96,265	117,737	-18%
Total revenues	2,557,545	2,250,256	471,999	485,035	3,029,544	2,735,291	11%
Expenses:							
General government	259,993	187,911	-	-	259,993	187,911	38%
Public protection	801,044	792,287	-	-	801,044	792,287	1%
Public ways and facilities	61,443	79,649	-	-	61,443	79,649	-23%
Health and sanitation	350,451	290,001	-	-	350,451	290,001	21%
Public assistance	634,522	552,298	-	-	634,522	552,298	15%
Education	11,168	10,112	-	-	11,168	10,112	10%
Recreation and culture	7,188	8,617	-	-	7,188	8,617	-17%
Interest on long-term debt	75,721	48,717	-	-	75,721	48,717	55%
Regional Medical Center	-	-	290,962	356,255	290,962	356,255	-18%
Waste Management Department	-	-	66,453	55,563	66,453	55,563	20%
Housing Authority	-	-	62,909	62,206	62,909	62,206	1%
Flood Control	-	-	5,705	4,928	5,705	4,928	16%
County Service Areas	-	-	285	320	285	320	-11%
Total expenses	2,201,530	1,969,592	426,314	479,272	2,627,844	2,448,864	7%
Excess (deficiency) before transfers	356,015	280,664	45,685	5,763	401,700	286,427	40%
Transfers in (out)	19,888	(31,000)	(19,888)	31,000	-	-	0%
Change in net assets	375,903	249,664	25,797	36,763	401,700	286,427	40%
Net Assets, Beginning of Year, as Restated	2,136,926	1,414,456	142,447	105,684	2,279,373	1,520,140	50%
Net Assets, End of Year	$ 2,512,829	$ 1,664,120	$ 168,244	$ 142,447	$ 2,681,073	$ 1,806,567	48%

Management's Discussion & Analysis *(Unaudited)*

FINANCIAL ANALYSIS OF FUND STATEMENTS

As noted earlier, the County uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on the sources, uses, and balances of current financial resources. Such information is useful in assessing the County's short-term financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the general fund, special revenue funds, capital project funds, and debt service funds. As of June 30, 2006, the County's governmental funds reported combined fund balances of $1.4 billion, an increase of $313.3 million, in comparison with the prior year. Of this total amount, $790.9 million constitutes *unreserved fund balance,* which is available for spending at the County's discretion. The remainder of fund balance, $609.7 million is *reserved* to indicate that it is *not* available for new spending because it has been committed to:

- Specific County program: $97.2 million
- Outstanding debt service: $47.5 million
- Liquidation of current contractual commitments: $361.0 million
- Other smaller restrictions: $104.0 million

Total governmental fund revenue increased 13.5% or $304.1 million from the prior fiscal year with $2.6 billion being earned for the fiscal year-ended June 30, 2006. Expenditures decreased 4.2% or $106.4 million, from the prior fiscal year with $2.4 billion being expended for governmental functions during fiscal year 2005-06, compared to $2.5 billion for the prior fiscal year. Therefore, governmental fund balance increased 28.8% or $313.3 million. In comparison, fiscal year 2004-05 had an increase in governmental fund balance of 42.3% or $324.2 million, over fiscal year 2003-04.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $346.5 million, compared to $231.2 million for the prior fiscal year, while total fund balance was $446.9 million for the current year and $352.5 million for the prior year. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance is 18.3% of the total General Fund expenditure of $1.9 billion for the current year as compared to 13.3% of the prior year total of $1.74 billion. The total fund balance of the General Fund for the current year is 23.6% of the total General Fund expenditure as compared to 20.2% for the prior year.

Teeter Debt Service fund taxes receivable balance decreased from $29.7 million in the prior fiscal year to $21.9 million in the current fiscal year. In the previous fiscal year, current year taxes receivable for County funds participating in the Teeter program were accrued in the Teeter Debt Service fund, but in fiscal year 2005-2006 this amount was accrued in the General Fund. Due to other governments also decreased this year from $21.2 million to zero because no liabilities were owed to cities participating in the Teeter program. Teeter notes payable increased in the current fiscal year to $58.4 million compared to $34.2 million in fiscal year 2004-2005. Each year the Teeter notes payable balance will change depending on the amount of delinquent property taxes incurred by the County.

Public Facilities Improvements Capital Projects fund balance increased from $175.7 million to $223.0 million, 26.9%, or $47.3 million. The change resulted from increases in charges for services, $42.5 million, other revenue of $32.3 million, and transfers in, $38.2 million. This was offset by increases in general government expenditures of $47.0 million and transfers out, $23.5 million.

Redevelopment Capital Projects fund had a $71.5 million increase in fund balance. The increase resulted from the sale of bonds for $108 million, and an increase in interest revenue of $7.3 million and offset by expenditures for general government in the amount of $40.4 million.

Management's Discussion & Analysis *(Unaudited)*

Proprietary Funds

The County's proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The Regional Medical Center and Waste Management are shown in separate columns of the fund statements due to materiality criteria defined by GASB. In addition, the internal service funds are combined into a single, aggregated, presentation in the proprietary fund statements with the individual fund data provided in the combining statements that can be found in the Supplemental Information section.

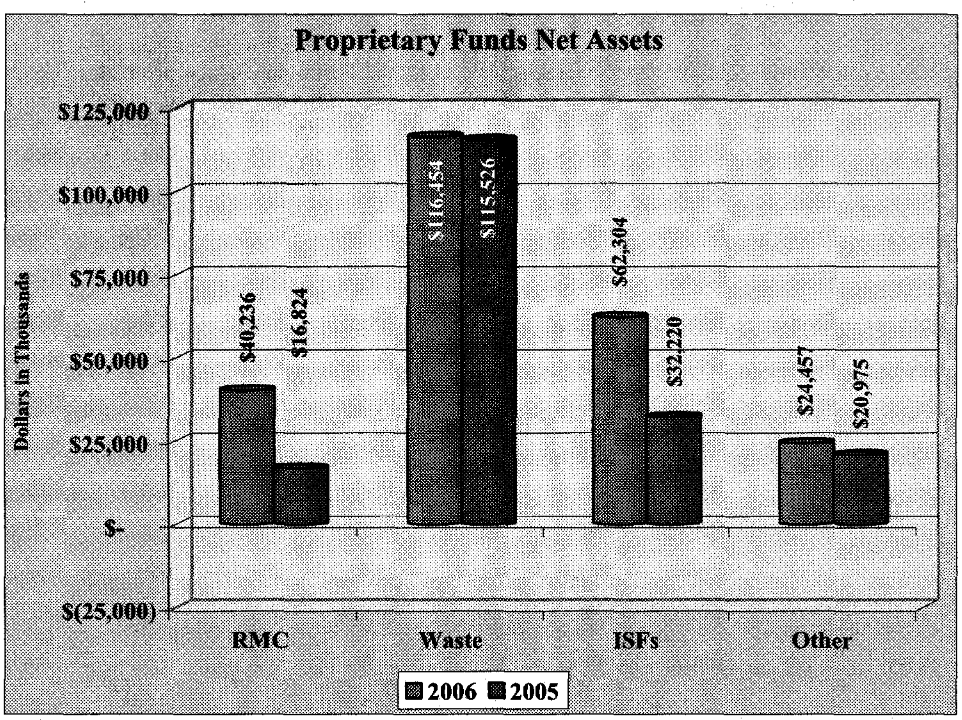
At the end of the fiscal year, total proprietary fund net assets were $243.5 million, compared to $185.5 million for prior fiscal year. Total proprietary fund net assets increased 31.2% or $57.9 million, compared to a 40.2% or $53.2 million increase for the prior fiscal year.

Of the year-end balances, unrestricted net assets were as follows:

- Riverside County Regional Medical Center: $42.9 million
- Waste Management: $45.7 million
- Other enterprise fund activities: $10.3 million
- Internal service fund activities: $40.5 million

RMC's net assets increased from $16.8 million to $40.2 million, 139.2%, or $23.4 million. The change resulted from increases in other revenue, $60.2 million and decreases in supplies, $39.4 million and other operating expenses, $6.8 million. This was primarily offset by decreases in net patient revenue, $266.7 million, transfers in, $15.7 million and increases in maintenance of building & equipment, $9.9 million, purchased services, $56.5 million, rents and leases of equipment $4.2 million and transfers out, $35 million.

Waste Management's net assets increased from $115.5 million to $116.5 million, 0.8%, or $0.9 million. The change resulted from increases in charges for services, $54.0 million, investment income, $3.8 million, closure/post-closure expenses, $13.9 million and a decrease in remediation expense, $.3 million



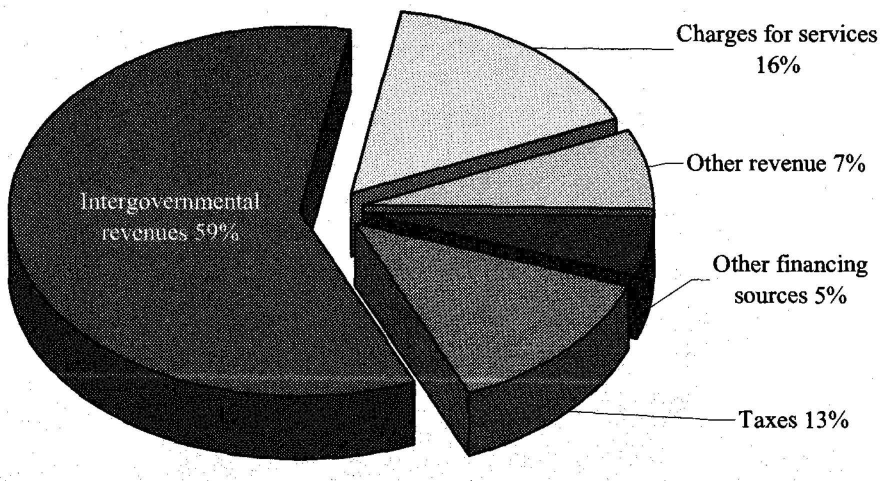
GENERAL FUND FINANCIAL ANALYSIS

Revenues and other financing sources for the General Fund, including comparative amounts from the preceding year are shown in the following tabulation (in thousands):

Revenues and Other Financing Sources	Fiscal Year 2005-2006	Percent of Total	Fiscal Year 2004-2005	Percent of Total
Taxes	$ 273,493	13%	$ 219,420	12%
Intergovernmental revenues	1,249,537	59%	1,112,077	59%
Charges for services	326,066	16%	293,581	15%
Other revenue	144,767	7%	199,893	10%
Other financing sources	111,711	5%	75,630	4%
Total	$ 2,105,574	100%	$ 1,900,601	100%

The increase in tax revenue was attributable to the overall growth in the economy, particularly in higher assessed property values and real estate sales. The increase in intergovernmental revenue was primarily attributable to growth in public safety sales tax from the State, and an increase in realignment revenue due to economic growth, as well as growth in reimbursement based programs. The overall increase in charges for services was primarily the result of increased service contracts and contract rates.

COUNTY OF RIVERSIDE
General Fund Revenues and Other Financing Sources
For The Year Ended June 30, 2006 (In Thousands)



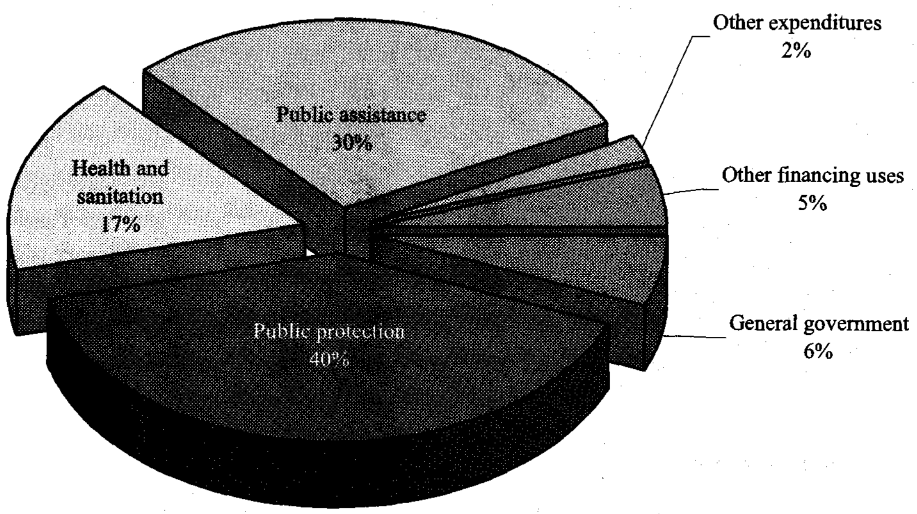
Management's Discussion & Analysis *(Unaudited)*

Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

Expenditures and Other Financing Uses	Fiscal Year 2005-2006	Percent of Total	Fiscal Year 2004-2005	Percent of Total
General government	$ 123,716	6%	$ 105,992	6%
Public protection	798,035	40%	742,550	41%
Health and sanitation	337,139	17%	279,472	15%
Public assistance	588,928	30%	569,412	32%
Other expenditures	45,987	2%	46,672	3%
Other financing uses	104,172	5%	53,102	3%
Total	$ 1,997,977	100%	$ 1,797,200	100%

The increase of expenditures in general government and public protection was attributable to additional staffing and procurement of equipment needed to more efficiently serve the public. The increase of expenditures in health and sanitation was the result of change in the IGT structure associated with AB855 and SB1255 (Medicare re-programming), as well as growth of contract amounts on reimbursable programs because of population increase. The increase in public assistance was attributable to growth of reimbursable programs, and the implementation costs of the new C-IV Statewide Welfare System. The increase in other financing uses was primarily attributable to bond and interest payments on the pension obligation bond issued in fiscal year 2004-2005 to generate interest savings on pension obligation with CalPERS.

COUNTY OF RIVERSIDE
General Fund Expenditures and Other Financing Uses
For The Year Ended June 30, 2006 (In Thousands)



GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors attributing to the General Fund variances between 1) the original and the final amended budget and 2) the final amended budget and the actual revenue and expenditure amounts. The budgetary comparison statement displays the details of the comparison and is included in the governmental fund statements section.

Variance between General Fund Original Adopted and Final Amended Budget

Estimated Revenue Variance

The original general fund estimated revenue budget increased by 1.8%, or $36.3 million, from $2.0 billion to the final amended revenue budget of $2.1 billion. The increase represents $54.7 million from taxes, $4.7 million from fines, forfeitures and penalties, $14.9 million from use of money and property, $115.7 million from aid from other governmental agencies and $28.8 million from charges for current services. This was all offset by a decrease in other revenue of $183.0 million.

Taxes

- The budget for property tax had a net increase of $54.7 million and primarily consisted of the documentary transfer taxes increase by $8.0 million, sales and use tax increase by $5.0 million, a $33.0 million increase in property tax – supplemental, and $7.0 million increase current secured property taxes.

Fines, Forfeitures and Penalties

- The budget for fines, forfeitures, and penalties had a net increase of $4.7 million due to transfers from the Teeter Tax Loss Reserve fund to the Teeter Debt Service fund to cover losses incurred from sales of delinquent property.

Use of Money and Property

- The budget for interest had a net increase of $14.8 million due to higher earning on investments as a result of higher short-term interest rates driven upward by the Federal Open Market Committee (FOMC) rate policies. The FOMC increased overnight lending rates from 3.00% on June 30, 2005 to 5.25% by June 29, 2006.

Aid Received from Other Governmental Agencies

- Aid received from other governmental agencies increased by $115.7 million and consisted of the following: federal aid increased by $6.6 million, state aid increased by $40.5 million and other aid increased by $68.6 million. Increases in state aid were the result of an increase in motor-vehicle tax of $29.0 and an increase from the Department of Public Social Services by $10.0 million due to uncertainty regarding the amount and availability of state revenue to fund realignment program growth. The increase in other governmental aid was the result of a reclassification of Redevelopment contractual revenue from the other revenue account.

Charges for Current Services

- The budget for charges for services had a net increase of $28.8 million and primarily consisted of the Emergency Medical Services Appropriation (EMSA) increasing by $2.1 million, the Department of Public Health (DOPH) primary and preventive health services increasing by $1.4 million, state contracted fire protection services increasing by $1.3 million, leasing services increasing by $5.5 million, law enforcement services increasing by $14.6 million, and fire department supplemental structural fire taxes increasing by $3.4 million.

Other Revenue

- The decrease of $183.0 million was the result of $103.6 million from interfund transfers and $68.6 million from the reclassification of Redevelopment contractual revenue from other revenue into other aid received from other governmental agencies.

Expenditure Appropriation Variances

The original general fund appropriation budget increased $4.3 million or 0.2%, from $2.1 billion to the final amended appropriation budget of nearly $2.2 billion. The significant appropriation increases were $13.2 million from health and sanitation, $9.7 million from public protection and $9.6 million from public assistance. These increases were offset by a decrease in general government of $28.1 million. The major appropriation variances are described below.

General Government: The appropriation budget decreased 14.3%, or $28.2 million, from the original budget of $197.3 million to $169.2 million. This decrease of $54.5 million in other charges was the result of interfund transfers. This was offset by an increase of $21.8 million in services and supplies.

Public Protection: The appropriation budget increased 1.2%, or $9.7 million, from the original budget of $815.5 million to $825.2 million. The increase was a result of $13.5 million increase from services and supplies and $5.8 million from capital assets with the offset of $6.1 million in salaries and employee benefits. The following describe the significant factors for the increases:

- The Sheriff-Coroner-Public Administrator required an appropriation increase of $3.9 million to provide law enforcement services to contracting cities. In addition, there was an implementation of the County Gang Task Force which resulted in an appropriation increase of $1.9 million to combat gang activity.
- The Fire Department required an increase in appropriations of $3.8 million due to a contract with State of California Department of Forestry for fire protection services.

Health and Sanitation: The appropriation budget increased approximately 3.3%, or $13.2 million, from $394.3 million to $407.5 million. Reclassification of salaries and employee benefits resulted in a decrease of $7.8 million while other charges increased by $9.3 million and services and supplies increased by $8.3 million. The major components for these increases are described below.

- The County of Riverside participates in the SB 2132 Emergency Medical Services Appropriation (EMSA) passed by California State Legislature that allowed for an emergency appropriation increase of $2.1 million for emergency medical services. These funds are for physicians and hospitals providing uncompensated emergency medical services.
- An increase in appropriation of $5.3 million was needed for Mental Health. Riverside County Board of Supervisor's approved the three-year Mental Health Services Act Community Services and Supports Expenditure Plan on January 10, 2006. The plan is designed to provide new mental health services and supports the community throughout Riverside County.

Public Assistance: The appropriation budget increased 1.5%, or $9.6 million, from the original budget of $640.7 million to $650.2 million. The increase was a result of a $14.7 million increase in other charges offset against a decrease of $4.8 million in salaries and employee benefits. The following describe the significant factors for the increases.

- The IHSS (In-Home Supportive Services) programs are continuing to experience growth. The individual provider services hours are increasing. As a result, IHSS required an additional appropriation increase of $6.3 million.

- The Department Public Social Services categorical aid caseloads in the adoptions assistance, emergency assistance and Kin-Gap programs are growing faster than projected. As a result the net increase in assistance expenditures required additional appropriations of $7.4 million.

Variance between General Fund Actual Revenues and Expenditures and Final Amended Budget

During the year, the General Fund had a positive budget variance of $107.8 million resulting from unexpended appropriations of $198.2 million and overestimated revenue of $90.4 million. The following contributed to the variance:

Expenditure Variances

General fund actual expenditures of $1.9 billion were 9.5%, or $198.2 million, less than the final amended appropriation budget of $2.1 billion. General government, health and sanitation, public assistance and public protection were the four most significant factors attributing to the unexpended appropriations as follows:

General Government: Actual expenditures of $123.7 million were less than the final amended budget of $169.2 million by 26.8%, or $45.4 million. The most significant factor was due to a decrease for contingencies in the amount of $25.6. Other charges were also less than budget by $10.1 million, services and supplies by $6.3 million and salaries and employee benefits by $3.0 million.

Public Protection: Actual expenditures of $798.0 million were less than the final amended budget of $825.2 million by 3.3%, or $27.2 million. The most significant factor was due to a decrease in services and supplies of $12.5 million, salaries and employee benefits by $9.8 million and capital assets by $5.5 million.

Health and Sanitation: Actual expenditures of $337.1 million were less than the final amended budget of $407.5 million by 17.3%, or $70.4 million. The most significant factor was due to a decrease in other charges for $71.6 million as a result of their cost-cutting measures.

Public Assistance: Actual expenditures of $588.9 million were less than the final amended budget of $650.2 million by 9.4%, or $61.3 million. The most significant factor was due to a decrease in other charges of $31.2 million, salaries and employee benefits by $18.9 million and services and supplies by $13.6 million and offset by interfund transfers of $2.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, the County's capital assets for both its governmental and business-type activities amounted to $2.3 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, infrastructure (channels, storm drains, basins, roads, traffic signals, bridges, runways and parks), structures and improvements and equipment. The County's capital assets increased by 40.3% or $663.0 million, from $1.6 billion in fiscal year 2004/2005 to $2.3 billion in fiscal year 2005/2006.

Projects currently in construction included the following: The renovation of the 1933 Historic Courthouse for $12.5 million, the Smith Correctional Facility expansion for $8.0 million, the Ben Clark Training Center Shooting Range for $8.1 million, the Smith Correctional Facility Expansion Phase II for $6.5 million, sixth floor renovations for the Assessor-Clerk-Recorder in the County Administrative Center for $1.9 million, renovation of the Assessor-Clerk-Recorder administration building for $5.5 million, the Perris Sheriff Station complex and health clinic for $27.0 million and the Sycamore Creek fire station for $3.1 million.

The County currently has several construction projects that are in a design phase including the new Southwest Regional Animal Facility with a projected cost of $12.0 million, parks headquarters annex for $4.6 million, three new radio sites for $4.6 million, a new law building for $80.0 million, and four fire stations in Cabazon, Lake Riverside, Sun City, and Nuevo with a total projected cost of $10.4 million.

Major capital asset events during the current fiscal year included the following:

- The June 30, 2006 construction in progress balance of $213.4 million included retirements of $0.7 million and additions of $124.9 million in capital assets comprised of the following projects:
  - Road, bridge, and signal infrastructure: $117.7 million
  - Channels, storm drains and basins (infrastructure): $22.2 million
  - Buildings and Structures: $45.7 million
  - Regional Medical Center: $7.0 million
  - Waste Management (infrastructure): $5.1 million
  - Runways: $4.3 million
  - Parks: $4.7 million
  - Housing: $1.5 million
- Construction of $47.7 million was completed during the fiscal year and transferred from construction-in-progress to the following capital asset accounts:
  - Infrastructures: Channels, Storm Drains and basins: $33.0 million
  - Infrastructures: Landfills: $7.3 million
  - Infrastructures: Runways: $3.2 million
  - Structures and improvements: $1.8 million
- Depreciable capital asset current year additions were $137.3 million. Retroactive infrastructure additions totaled $1.2 billion. The total of $1.3 billion in capital asset additions were comprised of the following items:
  - Roads: $1.1 billion
  - Traffic signals: $8.8 million
  - Bridges: $95.1 million
  - Flood channels: $24.6 million
  - Parks trails and improvements: $1.4 million
  - Buildings and Structures: $48.7 million
  - Equipment: $38.5 million
- As of June 30, 2006, significant commitments for capital expenditures include the following:
  - Transportation projects: $35.5 million
  - Redevelopment projects: $63.8 million
  - Facilities Management projects: $35.8 million

In the government-wide financial statements, depreciable capital assets are depreciated from the acquisition date to the end of the fiscal year. However, in the fund financial statements of the governmental funds, depreciable capital assets are accounted for as expenditures when payments are made.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

Capital Assets (net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	Percent of Change
Infrastructure	$ 994,455	$ 447,379	$ 30,137	$ 24,826	$ 1,024,592	$ 472,205	117%
Land and Easements	320,426	306,654	21,095	21,095	341,521	327,749	4%
Land Improvements	-	99	7,153	7,735	7,153	7,834	-9%
Structures and Improvements	465,921	455,967	155,922	155,001	621,843	610,968	2%
Equipment	84,044	72,154	17,566	19,268	101,610	91,422	11%
Construction in Progress	195,814	122,449	17,601	14,465	213,415	136,914	56%
Total	$ 2,060,660	$ 1,404,702	$ 249,474	$ 242,390	$ 2,310,134	$ 1,647,092	40%

Debt Administration

Under the direction of the Board of Supervisors, the County's Debt Advisory Committee reviews all debt issuances of the County and its financing component unit organizations and advises the Board accordingly. As of fiscal year-end June 30, 2006, the County had several debt issues outstanding, principally certificates of participation—lease rental obligations.

Net bonded debt per capita equaled $311 as of June 30, 2006. The calculated legal debt limit for the County is $2.1 billion. On February 8, 2005, Moody's Investors Service revised the County's outlook from "negative" to "stable" on the credit rating for California counties (Riverside County included) noting it "reflects the County's improved financial position coupled with reduced uncertainty about the level of General Fund support required by the County's medical center." The following are credit ratings maintained by the County:

	Moody's Investors Service, Inc.	Standards & Poor's Corp.	Fitch
Long-term lease debt	A2	AA-	AA-
Issuer credit	A1	AA	AA

The County has issued Tax and Revenue Anticipation Notes (TRANs) to provide needed cash to cover the projected cash flow deficits of the County's General Fund during the fiscal year July 1 through June 30. In fiscal year 2005-06, the County, as a participant in the California Statewide Communities Development Authority Pool, issued $210.0 million in TRANs to satisfy short-term cash flow needs. Included in this amount was the $84.8 million of taxable notes to pre-pay the County fiscal year 2005-06 CALPERS employer's normal contribution.

In October 1993, the Board of Supervisors formally passed a resolution necessary for the County to adopt the Teeter Plan (alternate method of property tax distribution). The plan required the "buy-out" of delinquent taxes and the annual advance of unpaid taxes to participating agencies. Funding for the County's on-going obligations under Teeter was accomplished through the sale of County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes (The "Notes") in the amount of $58.4 million. The $58.4 million was comprised of $39.0 million representing fiscal year 2005-2006 delinquent property taxes and $19.4 million representing prior years' delinquent property taxes. Westdeutsche Landesbank Girozentrale and Citibank are the letter of credit providers for the Teeter Notes and the repayment is a pledge of the general fund.

The table below provides summarized information (including comparative amounts from the preceding year) for the County's outstanding long-term liabilities at June 30, 2006.

County's Outstanding Debt Obligation
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Variance
	2006	2005	2006	2005	2006	2005	
Loans payable	$ 113,383	$ 150,019	$ -	$ -	$ 113,383	$ 150,019	-24%
Notes payable	-	325	-	-	-	325	-100%
Bonds payable	814,443	678,028	191,142	200,555	1,005,585	878,583	14%
Certificates of participation	348,486	325,572	-	-	348,486	325,572	7%
Capital Leases	83,829	75,845	14,993	13,551	98,822	89,396	11%
Total Outstanding	$ 1,360,141	$ 1,229,789	$ 206,135	$ 214,106	$ 1,566,276	$ 1,443,895	8%

Outstanding Debt: The County of Riverside's total debt increased by 8.5%, $122.4 million ($130.0 million in governmental funds less $7.9 million in business-type), during the current fiscal year. The key factors in this increase were issuance of $144.1 million in RDA tax allocation revenue bonds and $34.7 million in Certificates of Participation for CORAL.

During the current fiscal year, the County's RDA refinanced $33.7 million of its existing debt to take advantage of favorable interest rates that resulted in net savings of $2.0 million over the next 28 years.

Additional information on the County's long-term debt can be found in Note 13.

Management's Discussion & Analysis *(Unaudited)*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Riverside County's economic strength was a key factor in compiling the fiscal year 2006-07 budget – Riverside continues to be one of the fastest-growing in the nation. Fiscal discipline and exceptional economic strength have permitted the build up of reserves and eliminated the county's reliance on one-time revenue. The County budget for fiscal year 2006-07 assumed a beginning general fund unreserved-undesignated fund balance of $22.6 million. Estimated discretionary revenue was $123.0 million higher than that in the previous year's final budget. The change in total estimated discretionary general fund income represented a 24% increase over last fiscal year.

Summary of Fiscal Year 2006-07
General-Fund Discretionary Revenue (in thousands)

Source		Final Budget Estimate
Property Taxes	$	287,700
Motor Vehicle In Lieu		179,100
Interest		51,800
Sales Tax *		38,800
Documentary Transfer Tax		26,800
Fines and Penalties		25,200
Tax Loss Reserve Fund-Overflow		10,000
Franchise Tax		5,600
Other (Prior Year & Miscellaneous)		3,100
Federal In-Lieu Taxes		1,800
El Sobrante		1,800
Transient Occupancy Tax		1,400
Total	$	633,100

* Does not include public safety sales tax revenue

Many economic factors indicate that Riverside County's exceptional budget growth will be moderating in fiscal year 2007-08 – real estate and construction trends are slowing. Nevertheless, a soft economic landing is expected, which should allow another year of double-digit growth in discretionary revenue.

The County's employee retirement benefit contribution rate for fiscal year 2006-07 for miscellaneous members is 11.91% and the Safety contribution rate is 18.03%. The employer rate for both plans is subject to changes in future years, as it continues to reflect changes in investment return and the County's growth rate, among other factors. Fiscal year 2007-08 rates are projected at 11.9% (Miscellaneous) and 17.9% (Safety). Additional information regarding the County's retirement plans are included in Notes 18, 19 and 20 of the financial statements and schedules of retirement funding progress are included in the Required Supplementary Information section.

Assessed property values increased 19.59% in fiscal year 2005-06 and 22.52% in fiscal year 2006-07 yielding a total assessed property tax roll of $ 205 billion for fiscal year 2006-07. According to the County Assessor, the $38 billion increase is attributable to ownership changes, new construction and the 2% annual C.P.I. increase.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Riverside, Office of the Auditor-Controller, County Administrative Center, 4080 Lemon Street - 11th Floor, P.O. Box 1326, Riverside, CA 92502-1326: Phone: (951) 955-3800: Fax: (951) 955-3802: web site: www.auditorcontroller.org.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

PHOTOGRAPHER:
Joyce Lambie
LOCATION:
Fairmount Park
Riverside, CA

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COUNTY OF RIVERSIDE
Statement of Net Assets
June 30, 2006
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Children and Families Commission
ASSETS:				
Cash and investments (Note 5)	$ 1,269,034	$ 93,361	$ 1,362,395	$ 51,970
Receivables, net (Notes 1 and 7)	283,101	71,908	355,009	5,925
Inventories	6,028	6,059	12,087	-
Internal balances (Note 8)	14,077	(14,077)	-	-
Pension asset, net	387,945	3,686	391,631	-
Prepaid items and deposits	2,022	1,656	3,678	-
Restricted cash and investments (Notes 5 and 6)	382,154	114,620	496,774	-
Other noncurrent receivables (Note 7)	55,784	-	55,784	-
Notes receivable (Note 7)	14,703	-	14,703	-
Land held for resale	26,079	-	26,079	-
Capital assets (Note 9):				
Depreciable assets, net	1,544,420	210,778	1,755,198	142
Nondepreciable assets	516,240	38,696	554,936	-
Bond issuance costs	13,989	2,188	16,177	-
Total assets	4,515,576	528,875	5,044,451	58,037
LIABILITIES:				
Accounts payable	128,379	16,992	145,371	5,258
Salaries and benefits payable	73,285	11,128	84,413	138
Due to other governments	39,548	-	39,548	-
Interest payable	11,107	775	11,882	-
Deposits payable	401	47	448	-
Notes payable (Note 12)	58,394	-	58,394	-
Other liabilities	2,167	5,647	7,814	-
Noncurrent Portion of Long Term Liabilities:				
Unearned revenue (Note 7)	73,980	-	73,980	-
Long-term liabilities (Note 13) :				
Due within one year	145,415	27,784	173,199	95
Due beyond one year	1,470,071	298,258	1,768,329	63
Total liabilities	2,002,747	360,631	2,363,378	5,554
NET ASSETS:				
Invested in capital assets, net of related debt	930,800	40,986	971,786	141
Restricted for:				
Capital projects	274,190	-	274,190	-
Children's programs	-	-	-	52,342
Debt service	211,249	30,873	242,122	-
Program operations	96,598	10,414	107,012	-
Unrestricted	999,992	85,971	1,085,963	-
Total net assets	$ 2,512,829	$ 168,244	$ 2,681,073	$ 52,483

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Statement of Activities
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTION/PROGRAM ACTIVITIES:				
Primary government:				
Governmental activities:				
General government	$ 259,993	$ 174,781	$ 37,637	$ -
Public protection	801,044	286,877	257,437	276
Public ways and facilities	61,443	42,705	11,714	30,004
Health and sanitation	350,451	46,051	190,436	-
Public assistance	634,522	2,220	601,968	-
Education	11,168	608	460	721
Recreation and culture	7,188	5,497	1,022	-
Interest on long-term debt	75,721	-	-	-
Total governmental activities	2,201,530	558,739	1,100,674	31,001
Business-type activities:				
Regional Medical Center	290,962	330,125	-	227
Waste Management Department	66,453	63,658	-	-
Housing Authority	62,909	65,765	-	-
Flood Control	5,705	5,561	-	-
County Service Areas	285	282	-	-
Total business-type activities	426,314	465,391	-	227
Total primary government	$ 2,627,844	$ 1,024,130	$ 1,100,674	$ 31,228
Component unit:				
Children and Families First Commission	$ 30,669	$ -	$ 26,955	$ -

General revenues:
Taxes:
Property taxes
Sales and use taxes
Other taxes
Intergovernmental revenue not restricted to programs:
Contractual revenue- Redevelopment
Motor vehicle in-lieu of taxes
Investment earnings
Other
Transfers
Total general revenues and transfers
Changes in net assets
NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 4)
NET ASSETS, END OF YEAR

The notes to the basic financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Unit	
				FUNCTION/PROGRAM ACTIVITIES:
				Primary government:
				Governmental activities:
$ (47,575)	$ -	$ (47,575)		General government
(256,454)	-	(256,454)		Public protection
22,980	-	22,980		Public ways and facilities
(113,964)	-	(113,964)		Health and sanitation
(30,334)	-	(30,334)		Public assistance
(9,379)	-	(9,379)		Education
(669)	-	(669)		Recreation and culture
(75,721)	-	(75,721)		Interest on long-term debt
(511,116)	-	(511,116)		Total governmental activities
				Business-type activities:
-	39,390	39,390		Regional Medical Center
-	(2,795)	(2,795)		Waste Management Department
-	2,856	2,856		Housing Authority
-	(144)	(144)		Flood Control
-	(3)	(3)		County Service Areas
-	39,304	39,304		Total business-type activities
(511,116)	39,304	(471,812)		Total primary government
				Component unit:
			$ (3,714)	Children and Families First Commission
396,167	-	396,167	-	
44,286	-	44,286	-	
15,603	-	15,603	-	
16,332	-	16,332	-	
220,190	-	220,190	-	
78,288	6,381	84,669	1,766	
96,265	-	96,265	202	
19,888	(19,888)	-	-	
887,019	(13,507)	873,512	1,968	
375,903	25,797	401,700	(1,746)	
2,136,926	142,447	2,279,373	54,229	
$ 2,512,829	$ 168,244	$ 2,681,073	$ 52,483	

The notes to the basic financial statements are an integral part of this statement

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BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

PHOTOGRAPHER:
Helen Christmon
LOCATION:
Fairmount Park
Riverside, CA

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COUNTY OF RIVERSIDE

Balance Sheet
Governmental Funds
June 30, 2006
(Dollars in Thousands)

ASSETS:	General	Teeter Debt Service	Public Facilities Improvements Capital Projects
Cash and investments (Note 5)	$ 257,077	$ -	$ 227,245
Accounts receivable (Notes 1 and 7)	43,255	-	-
Interest receivable (Note 7)	9,124	223	1,471
Taxes receivable (Note 7)	19,939	21,932	-
Due from other governments (Note 7)	206,270	-	20
Inventories	1,806	-	-
Due from other funds (Note 8)	5,895	-	-
Prepaid items	-	-	-
Restricted cash and investments (Notes 5 and 6)	228,897	39,868	-
Advance to other funds (Note 8)	20	-	-
Notes receivable (Note 7)	-	-	-
Land held for resale	-	-	-
Total assets	772,283	62,023	228,736
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	85,857	105	5,069
Salaries and benefits payable	63,119	-	-
Due to other governments	35,017	-	678
Due to other funds (Note 8)	1,189	3,524	-
Deposits payable	82	-	-
Teeter notes payable (Note 12)	-	58,394	-
Noncurrent portion of long term liabilities:			
Advances from other funds	-	-	-
Deferred revenue (Note 7)	140,101	-	6
Total liabilities	325,365	62,023	5,753
Fund balances (Note 14):			
Reserved	100,436	-	222,983
Unreserved, designated, reported in:			
General fund	277,833	-	-
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Unreserved, undesignated, reported in:			
General fund	68,649	-	-
Special revenue funds	-	-	-
Total fund balances	446,918	-	222,983
Total liabilities and fund balances	$ 772,283	$ 62,023	$ 228,736

The notes to the basic financial statements are an integral part of this statement.

Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds	
			ASSETS:
$ 185,492	$ 411,105	$ 1,080,919	Cash and investments (Note 5)
-	10,171	53,426	Accounts receivable (Notes 1 and 7)
1,296	3,383	15,497	Interest receivable (Note 7)
-	6,225	48,096	Taxes receivable (Note 7)
-	12,101	218,391	Due from other governments (Note 7)
1,021	868	3,695	Inventories
-	1,178	7,073	Due from other funds (Note 8)
-	1,911	1,911	Prepaid items
-	113,389	382,154	Restricted cash and investments (Notes 5 and 6)
-	-	20	Advance to other funds (Note 8)
-	14,703	14,703	Notes receivable (Note 7)
23,590	2,489	26,079	Land held for resale
211,399	577,523	1,851,964	Total assets
			LIABILITIES AND FUND BALANCES:
			Liabilities:
2,695	23,204	116,930	Accounts payable
-	5,788	68,907	Salaries and benefits payable
-	3,853	39,548	Due to other governments
-	1,186	5,899	Due to other funds (Note 8)
-	319	401	Deposits payable
-	-	58,394	Teeter notes payable (Note 12)
			Noncurrent portion of long term liabilities:
-	20	20	Advances from other funds
-	21,204	161,311	Deferred revenue (Note 7)
2,695	55,574	451,410	Total liabilities
			Fund balances (Note 14):
88,391	197,878	609,688	Reserved
			Unreserved, designated, reported in:
-	-	277,833	General fund
-	212,407	212,407	Special revenue funds
120,313	2,056	122,369	Capital projects funds
			Unreserved, undesignated, reported in:
-	-	68,649	General fund
-	109,608	109,608	Special revenue funds
208,704	521,949	1,400,554	Total fund balances
$ 211,399	$ 577,523	$ 1,851,964	Total liabilities and fund balances

The notes to the basic financial statements are an integral part of this statement.

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COUNTY OF RIVERSIDE

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006
(Dollars in Thousands)

Fund balances - total governmental funds (page 29)		$ 1,400,554
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		2,017,812
Bond issuance costs are not current financial resources and therefore are not reported in the governmental funds.		13,989
Net pension assets are not current financial resources and therefore are not reported in the governmental funds.		387,945
Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period; under accrual accounting, revenue must be recognized as soon as earned, regardless of its availability. Any liability of earned but unavailable revenue must be eliminated in the government-wide financial statements.		87,331
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds	$ 814,443	
Capital lease obligations	64,244	
Certificates of participation	348,486	
Loans payable	113,383	
Accrued interest payable	11,107	
Accreted interest payable	1,495	
Compensated absences	116,852	(1,470,010)
Internal service funds are used by management to charge the costs of equipment, fleet management, printing, information technology, supply services, risk management, and temporary assistance to individual funds. Since internal service funds predominantly service government activities, the assets and liabilities of these funds are included as governmental activities in the statement of net assets.		75,208
Net assets of governmental activities (page 23)		$ 2,512,829

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	General Fund	Teeter Debt Service	Public Facilities Improvements Capital Projects
REVENUES:			
Taxes	$ 273,493	$ -	$ 179
Licenses, permits and franchise fees	21,569	-	1
Fines, forfeitures and penalties	62,305	-	-
Use of money and property:			
Interest	42,826	573	6,142
Rents and concessions	4,131	-	-
Aid from other governmental agencies:			
Federal	395,105	-	-
State	785,390	-	3
Other	69,042	-	-
Charges for services	326,066	-	42,466
Other revenue	13,936	-	32,344
Total revenues	1,993,863	573	81,135
EXPENDITURES:			
Current:			
General government	123,716	615	46,979
Public protection	798,035	-	-
Public ways and facilities	3,930	-	1,620
Health and sanitation	337,139	-	-
Public assistance	588,928	-	-
Education	349	-	-
Recreation and culture	203	-	-
Debt service:			
Principal	18,432	-	-
Interest	15,144	1,782	-
Cost of issuance	-	29	-
Capital outlay	7,929	-	-
Total expenditures	1,893,805	2,426	48,599
Excess (deficiency) of revenues over (under) expenditures	100,058	(1,853)	32,536
OTHER FINANCING SOURCES (USES):			
Transfers in	103,586	7,012	38,229
Transfers out	(104,172)	(5,159)	(23,481)
Bond proceeds	-	-	-
Premium on long-term debt	-	-	-
Redemption of refunded bonds	-	-	-
Gain (loss) on sale of capital assets	196	-	-
Capital leases	7,929	-	-
Total other financing sources (uses)	7,539	1,853	14,748
NET CHANGE IN FUND BALANCES	107,597	-	47,284
Fund balances, beginning of year	352,454	-	175,699
Adjustments to beginning fund balances (Note 4)	(13,133)	-	-
Fund balances, beginning of year, as restated	339,321	-	175,699
FUND BALANCES, END OF YEAR	$ 446,918	$ -	$ 222,983

The notes to the basic financial statements are an integral part of this statement

Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds	
			REVENUES:
$ -	$ 183,445	$ 457,117	Taxes
-	163	21,733	Licenses, permits and franchise fees
-	679	62,984	Fines, forfeitures and penalties
			Use of money and property:
7,321	16,976	73,838	Interest
-	37,667	41,798	Rents and concessions
			Aid from other governmental agencies:
-	55,931	451,036	Federal
-	45,241	830,634	State
-	-	69,042	Other
-	71,062	439,594	Charges for services
1,714	62,876	110,870	Other revenue
9,035	474,040	2,558,646	Total revenues
			EXPENDITURES:
			Current:
40,393	58,637	270,340	General government
-	57,098	855,133	Public protection
-	135,467	141,017	Public ways and facilities
-	9,599	346,738	Health and sanitation
-	40,625	629,553	Public assistance
-	10,759	11,108	Education
-	12,524	12,727	Recreation and culture
			Debt service:
-	27,084	45,516	Principal
-	56,781	73,707	Interest
-	4,896	4,925	Cost of issuance
-	17,710	25,639	Capital outlay
40,393	431,180	2,416,403	Total expenditures
			Excess (deficiency) of revenues
(31,358)	42,860	142,243	over (under) expenditures
			OTHER FINANCING SOURCES (USES):
8,050	137,958	294,835	Transfers in
(12,321)	(132,547)	(277,680)	Transfers out
107,972	70,778	178,750	Bond proceeds
-	857	857	Premium on long-term debt
-	(35,684)	(35,684)	Redemption of refunded bonds
(801)	2,669	2,064	Gain (loss) on sale of capital assets
-		7,929	Capital leases
102,900	44,031	171,071	Total other financing sources (uses)
71,542	86,891	313,314	NET CHANGE IN FUND BALANCES
137,162	435,058	1,100,373	Fund balances, beginning of year
-	-	(13,133)	Adjustments to beginning fund balances (Note 4)
137,162	435,058	1,087,240	Fund balances, beginning of year, as restated
$ 208,704	$ 521,949	$ 1,400,554	FUND BALANCES, END OF YEAR

The notes to the basic financial statements are an integral part of this statement

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COUNTY OF RIVERSIDE
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

Net change in fund balances - total governmental funds (page 33)		$ 313,314
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay and other capital projects as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	$ 236,569	
Less loss on sale of capital assets	(3,958)	
Less current year depreciation	(53,739)	178,872
Prepaid pension costs are expended in the governmental funds when paid but are recognized as a financial resource in the statement of net assets.		(8,929)
Bond issuance costs are expended in the governmental funds when paid but are capitalized and amortized in the statement of net assets. This is the net amount of capitalized bond issuance cost.		4,314
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Proceeds in excess of principal payments		(124,794)
Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period; under accrual accounting, revenue must be recognized as soon as earned, regardless of its availability. Also, any liability of earned but unavailable deferred revenue must be eliminated in the government-wide financial statements.		(7,281)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest	(1,494)	
Change in accreted interest	(264)	
Change in long-term compensated absences	(9,943)	(11,701)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income (loss) of the internal service funds is reported with governmental activities.		32,108
Change in net assets of governmental activities (page 25)		$ 375,903

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Budgetary Comparison Statement
General Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 224,195	$ 278,920	$ 273,493	$ (5,427)
Licenses, permits and fees	23,115	23,532	21,569	(1,963)
Fines, forfeitures and penalties	46,115	50,878	62,305	11,427
Use of money and property:				
Interest	24,328	39,128	42,826	3,698
Rents and concessions	1,326	1,391	4,131	2,740
Aid from other governmental agencies:				
Federal	418,871	425,454	395,105	(30,349)
State	757,864	798,409	785,390	(13,019)
Other	229	68,834	69,042	208
Charges for current services	360,958	389,756	326,066	(63,690)
Other revenue	190,989	7,945	13,936	5,991
Total revenues	2,047,990	2,084,247	1,993,863	(90,384)
EXPENDITURES:				
Current				
General government				
Salaries and employee benefits	85,104	84,467	81,402	(3,065)
Services and supplies	78,363	100,177	93,830	(6,347)
Other charges	74,770	20,324	10,171	(10,153)
Capital assets	1,022	1,072	811	(261)
Intrafund transfers	(61,935)	(62,466)	(62,498)	(32)
Appropriation for contingencies	20,000	25,621	-	(25,621)
Total general government	197,324	169,195	123,716	(45,479)
Public protection:				
Salaries and employee benefits	523,742	517,628	507,795	(9,833)
Services and supplies	251,546	260,594	252,601	(7,993)
Other charges	44,896	45,089	41,436	(3,653)
Capital assets	5,828	11,615	6,127	(5,488)
Intrafund transfers	(10,533)	(9,738)	(9,924)	(186)
Total public protection	815,479	825,188	798,035	(27,153)
Health and sanitation:				
Salaries and employee benefits	158,978	151,161	145,440	(5,721)
Services and supplies	87,515	95,768	90,024	(5,744)
Other charges	258,876	268,250	196,688	(71,562)
Capital assets	1,229	2,670	2,096	(574)
Intrafund transfers	(112,286)	(110,355)	(97,109)	13,246
Total health and sanitation	394,312	407,494	337,139	(70,355)
Public assistance:				
Salaries and employee benefits	203,616	198,836	179,906	(18,930)
Services and supplies	80,883	80,512	66,864	(13,648)
Other charges	372,644	387,346	356,153	(31,193)
Capital assets	100	100	10	(90)
Intrafund transfers	(16,576)	(16,576)	(14,005)	2,571
Total public assistance	$ 640,667	$ 650,218	$ 588,928	$ (61,290)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Budgetary Comparison Statement
General Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget Over (Under)
Education:				
Salaries and employee benefits	$ 208	$ 198	$ 198	$ -
Services and supplies	140	151	151	-
Total education	348	349	349	-
Public ways and facilities:				
Salaries and Employee Benefits	3,446	3,203	3,193	(10)
Services & supplies	467	873	691	(182)
Other Charges	429	16	-	(16)
Capital Assets	105	82	46	(36)
Total public ways and facilities	4,447	4,174	3,930	(244)
Recreation and culture:				
Salaries and employee benefits	68	69	68	(1)
Services and supplies	96	146	135	(11)
Other charges	36	1	-	(1)
Total recreation and culture	200	216	203	(13)
Debt service:				
Principal	14,752	15,037	18,432	3,395
Interest	12,235	12,235	15,144	2,909
Total debt service	26,987	27,272	33,576	6,304
Capital outlay	7,929	7,929	7,929	-
Total expenditures	2,087,693	2,092,035	1,893,805	(198,230)
Excess (deficiency) of revenues over (under) expenditures	(39,703)	(7,788)	100,058	107,846
OTHER FINANCING SOURCES (USES):				
Transfers in	-	103,586	103,586	-
Transfers out	-	(104,882)	(104,172)	710
Gain on sale of assets	-	-	196	196
Capital leases	-	-	7,929	7,929
Total other financing sources (uses)	-	(1,296)	7,539	8,835
NET CHANGE IN FUND BALANCE	(39,703)	(9,084)	107,597	116,681
Fund balance, beginning of year, as previously reported	352,454	352,454	352,454	-
Adjustment to beginning fund balance	-	-	(13,133)	(13,133)
Fund balance, beginning of year	352,454	352,454	339,321	(13,133)
FUND BALANCE, END OF YEAR	$ 312,751	$ 343,370	$ 446,918	$ 103,548

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE

Statement of Net Assets
Proprietary Funds
June 30, 2006
(Dollars in Thousands)

	Business-type Activities --Enterprise Funds				Governmental Activities
ASSETS:	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
Current assets:					
Cash and investments (Note 5)	$ 37,813	$ 42,981	$ 12,567	$ 93,361	$ 188,115
Accounts receivable - net (Notes 1 and 7)	48,020	5,041	1,788	54,849	2,334
Interest receivable (Note 7)	475	964	54	1,493	1,141
Taxes receivable (Note 7)	-	-	9	9	-
Due from other governments (Note 7)	15,176	246	135	15,557	-
Advances to other funds (Note 8)	-	-	-	-	200
Inventories	5,720	339	-	6,059	2,333
Pension asset, net	-	3,686	-	3,686	-
Due from other funds (Note 8)	1,189	-	-	1,189	-
Restricted cash and investments (Notes 5 and 6)	33,103	77,543	3,974	114,620	-
Prepaid items and deposits	1,618	-	38	1,656	111
Total current assets	143,114	130,800	18,565	292,479	194,234
Noncurrent assets:					
Capital assets (Note 9):					
Depreciable assets	149,014	46,262	15,502	210,778	42,012
Nondepreciable assets	18,972	14,532	5,192	38,696	836
Bond issuance costs	2,188	-	-	2,188	-
Total noncurrent assets	170,174	60,794	20,694	251,662	42,848
Total assets	313,288	191,594	39,259	544,141	237,082
LIABILITIES					
Current liabilities:					
Accounts payable	12,900	3,774	318	16,992	11,449
Salaries and benefits payable	9,974	1,045	109	11,128	4,378
Due to other funds (Note 8)	2,363	-	-	2,363	-
Interest payable	765	-	10	775	-
Deposits payable	-	-	47	47	-
Other liabilities	109	226	5,312	5,647	2,167
Accrued closure and post-closure costs (Notes 10 and 13)	-	4,262	-	4,262	-
Accrued remediation costs (Note 21)	-	1,218	-	1,218	-
Compensated absences (Notes 1 and 13)	7,926	813	65	8,804	2,668
Capital lease obligations (Note 13)	2,880	-	-	2,880	7,399
Bonds payable (Note 13)	10,530	-	90	10,620	-
Estimated claims liabilities (Notes 13 and 15)	-	-	-	-	37,945
Total current liabilities	47,447	11,338	5,951	64,736	66,006
Noncurrent portion of long-term liabilities					
Compensated absences (Note 13)	3,831	1,728	1,164	6,723	2,666
Advances from other funds (Note 8)	-	-	-	-	200
Accrued closure and post closure care costs (Note 10)	-	46,422	-	46,422	-
Accrued remediation costs (Note 21)	-	15,652	-	15,652	-
Capital lease obligations (Notes 1 and 13)	12,113	-	-	12,113	12,187
Bonds payable (Note 13)	179,630	-	892	180,522	-
Estimated claims liabilities (Notes 13 and 15)	-	-	-	-	92,219
Other long-term liabilities (Note 13)	30,031	-	6,795	36,826	1,500
Total noncurrent liabilities	225,605	63,802	8,851	298,258	108,772
Total liabilities	273,052	75,140	14,802	362,994	174,778
NET ASSETS:					
Invested in capital assets, net of related debt	(33,707)	60,794	13,899	40,986	21,762
Restricted	31,066	9,994	227	41,287	-
Unrestricted	42,877	45,666	10,331	98,874	40,542
Total net assets	$ 40,236	$ 116,454	$ 24,457	181,147	$ 62,304
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds.				(12,903)	
Net assets of business-type activities				$ 168,244	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Business-type Activities --Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
OPERATING REVENUES:					
Net patient revenue (Notes 1 and 16)	$ 266,731	$ -	$ -	$ 266,731	$ -
Charges for services	3,229	54,002	7,382	64,613	154,985
Other revenue	60,165	9,656	64,226	134,047	22,912
Total operating revenues	330,125	63,658	71,608	465,391	177,897
OPERATING EXPENSES:					
Cost of materials used	-	225	-	225	1,417
Personnel services	140,871	15,158	10,191	166,220	60,868
Communications	1,784	242	3	2,029	4,393
Insurance	5,150	370	6	5,526	6,023
Maintenance of building and equipment	9,864	2,192	1,846	13,902	9,859
Insurance claims	-	-	-	-	55,706
Supplies	39,418	2,632	44	42,094	22,212
Purchased services	56,466	25,796	3,051	85,313	17,247
Depreciation and amortization	7,994	4,510	1,793	14,297	12,180
Rents and leases of equipment	4,183	116	28	4,327	2,406
Public assistance	-	-	50,429	50,429	-
Utilities	3,143	224	535	3,902	215
Closure and post-closure care costs	-	13,910	-	13,910	-
Remediation costs (recovery)	-	308	-	308	-
Other	6,764	619	1,070	8,453	3,301
Total operating expenses	275,637	66,302	68,996	410,935	195,827
Operating income (loss)	54,488	(2,644)	2,612	54,456	(17,930)
NONOPERATING REVENUES (EXPENSES):					
Investment income	2,043	3,764	574	6,381	4,451
Interest expense	(13,947)	-	(198)	(14,145)	(520)
Gain (loss) on disposal of capital assets	(30)	154	667	791	348
Total nonoperating revenues (expenses)	(11,934)	3,918	1,043	(6,973)	4,279
Income (loss) before capital contributions, and transfers	42,554	1,274	3,655	47,483	(13,651)
Capital contributions	227	-	-	227	41,002
Transfers in	15,669	-	-	15,669	6,944
Transfers out	(35,038)	(346)	(173)	(35,557)	(4,211)
CHANGE IN NET ASSETS	23,412	928	3,482	27,822	30,084
Net assets, beginning of the year	16,824	115,526	20,975		32,220
NET ASSETS, END OF YEAR	$ 40,236	$ 116,454	$ 24,457		$ 62,304
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(2,025)	
Change in net assets of business-type activities				$ 25,797	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ending June 30, 2006
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
Cash flows from operating activities					
Cash receipts from customers / other funds	$ 321,825	$ 64,189	$ 71,232	$ 457,246	$ 177,582
Cash paid to suppliers for goods and services	(115,604)	(36,658)	(50,791)	(203,053)	(117,469)
Cash paid to employees for services	(137,579)	(14,889)	(9,804)	(162,272)	(59,640)
Net cash provided by operating activities	68,642	12,642	10,637	91,921	473
Cash flows from noncapital financing activities					
Pension assets, net	-	434	-	434	-
Advances from other funds	-	-	-	-	(200)
Advances to other funds	-	-	-	-	200
Transfers received	15,669	-	-	15,669	6,944
Transfers paid	(35,038)	(346)	(173)	(35,557)	(4,211)
Net cash provided by (used in) noncapital financing activities	(19,369)	88	(173)	(19,454)	2,733
Cash flows from capital and related financing activities					
Proceeds from sale of capital assets	(30)	154	667	791	560
Acquisition and construction of capital assets	(909)	(8,196)	(7,452)	(16,557)	(3,413)
Principal paid on capital leases	(3,382)	-	-	(3,382)	(7,700)
Capital Contributions	227	-	-	227	41,002
Principal paid on bonds payable	(9,398)	-	(15)	(9,413)	-
Interest paid on long-term debt	(13,947)	-	(199)	(14,146)	(520)
Net cash provided by (used in) capital and related financing activities	(27,439)	(8,042)	(6,999)	(42,480)	29,929
Cash flows from investing activities					
Interest received on investments	1,568	3,261	538	5,367	3,765
Net cash provided by investing activities	1,568	3,261	538	5,367	3,765
Net increase in cash and cash equivalents	23,402	7,949	4,003	35,354	36,900
Cash and cash equivalents, beginning of year	47,514	112,575	12,538	172,627	151,215
Cash and cash equivalents, end of year	$ 70,916	$ 120,524	$ 16,541	$ 207,981	$ 188,115

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ending June 30, 2006
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	$ 54,488	$ (2,644)	$ 2,612	$ 54,456	$ (17,930)
Adjustments to reconcile operating income to net					
Depreciation and amortization	7,994	4,510	1,793	14,297	12,180
Decrease (Increase) accounts receivable	(2,487)	432	(324)	(2,379)	(315)
Decrease (Increase) taxes receivable	-	-	3	3	-
Decrease (Increase) bond issuance cost	417	-	-	417	-
Decrease (Increase) due from other funds	(1,189)	105	-	(1,084)	-
Decrease (Increase) due from other governments	(5,041)	(6)	(55)	(5,102)	-
Decrease (Increase) inventories	(404)	(36)	-	(440)	(203)
Decrease (Increase) prepaid items and deposits	1,631	-	(5)	1,626	-
Increase (Decrease) accounts payable	3,982	(90)	70	3,962	6,426
Increase (Decrease) due to other funds	2,114	-	-	2,114	(4,605)
Increase (Decrease) due to other governments	-	-	(1,765)	(1,765)	(10)
Increase (Decrease) deposits payable	-	(261)	(1)	(262)	-
Increase (Decrease) accrued closure costs	-	11,254	-	11,254	-
Increase (Decrease) accrued remediation costs	-	(692)	-	(692)	-
Increase (Decrease) other liabilities	3,845	(199)	7,922	11,568	281
Increase (Decrease) estimated claims liability	-	-	-	-	3,421
Increase (Decrease) salaries and benefits payable	2,199	143	(3)	2,339	969
Increase (Decrease) compensated absences	1,093	126	390	1,609	259
Net cash provided by operating activities	$ 68,642	$ 12,642	$ 10,637	$ 91,921	$ 473
Supplemental disclosure of noncash investing, capital, and financing activities	$ 358			$ 358	$ 13,259

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust	Agency Funds
ASSETS:				
Cash and investments (Note 5)	$ -	$ -	$ 15,737	$ 330,889
Federal Agency	6,421	1,473,741	-	-
Cash and Equivalent & MMF	166	38,023	-	-
Commercial Paper	1,681	385,862	-	-
Negotiable CD's	1,723	395,485	-	-
Medium Term Notes	99	22,767	-	-
Municipal Bonds	82	18,777	-	-
Certificates of Deposit	50	11,501	-	-
Local Agency Obligation	4	939	-	-
Accounts receivable	215	9,977	1	-
Interest receivable	33	17,700	68	216
Taxes receivable	-	1	-	57,009
Due from other governments	-	-	-	27,032
Total assets	10,474	2,374,773	15,806	415,146
LIABILITIES:				
Accounts payable	-	-	7,571	213,881
Salaries and benefits payable	-	-	-	7
Due to other governments	-	-	-	201,258
Total liabilities	-	-	7,571	$ 415,146
NET ASSETS:				
Held in trust for pension benefits, external pool participants, and other purposes	$ 10,474	$ 2,374,773	$ 8,235	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF RIVERSIDE

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust
ADDITIONS:			
Employer contributions	$ 633	$ -	$ -
Employee contributions	1,531	-	-
Contributions to pooled investments	-	18,652,462	-
Contributions to Private-Purpose Trust	-	-	4,204
Investment income	416	66,086	288
Total additions	2,580	18,718,548	4,492
DEDUCTIONS:			
Distribution from Pension Trust	422		
Distributions from pooled investments	-	18,120,536	-
Distributions from Private-Purpose Trust	-	-	3,584
Administrative and other expenses	182	-	-
Total deductions	604	18,120,536	3,584
Change in net assets	1,976	598,012	908
Net Assets Held in Trust, beginning of the year	8,498	1,776,761	7,327
Net Assets Held in Trust, end of the year	$ 10,474	$ 2,374,773	$ 8,235

The notes to the basic financial statements are an integral part of this statement.

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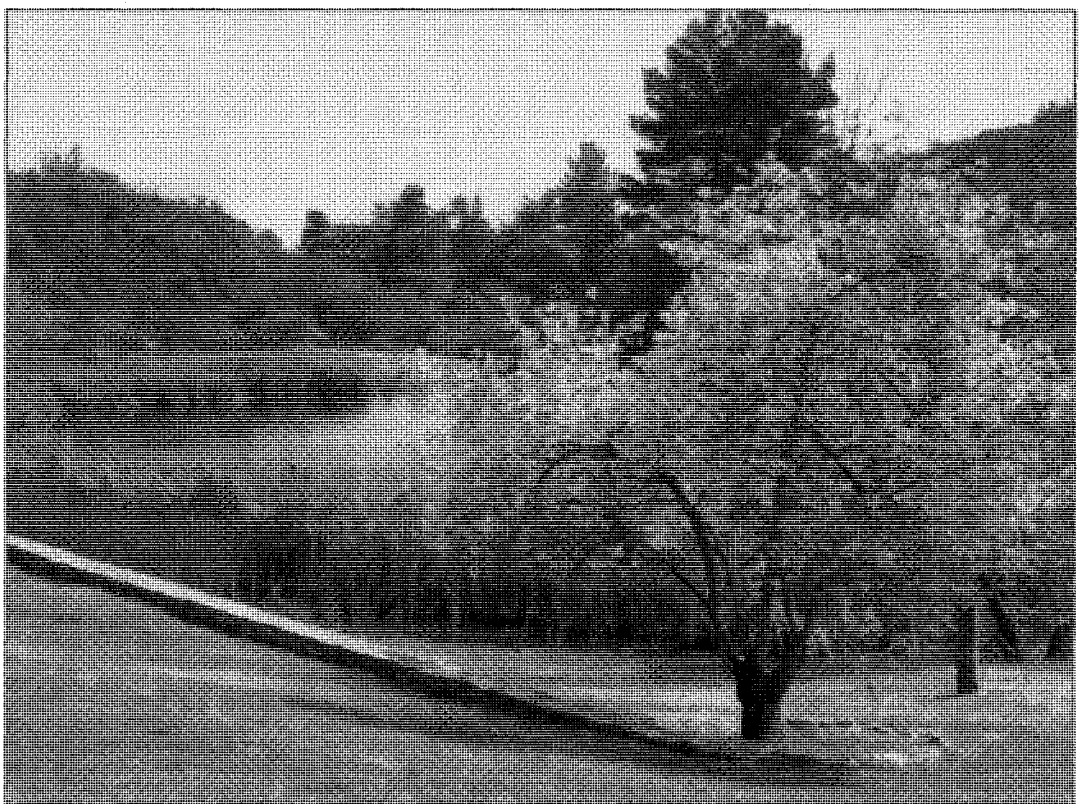
BASIC FINANCIAL STATEMENTS – NOTES TO THE BASIC FINANCIAL STATEMENTS



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Beaumont, CA

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COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County of Riverside (the County) is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through a five member Board of Supervisors (the Board), which, as the governing body of the County, is responsible for the legislative and executive control of the County. Services provided by the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture. As required by accounting principles generally accepted in the United States of America, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations and so data from these units are combined with data of the primary government. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. Each blended and discretely presented component unit has a June 30 year-end.

Blended Component Units

Housing Authority of the County of Riverside (Housing Authority) The governing body of the Housing Authority is the County's governing body. Among its duties, it approves the Housing Authority's budget, rates and charges for the use of facilities, and appoints the management. The Housing Authority is reported as a proprietary fund type.

Riverside County Flood Control and Water Conservation District (Flood Control) The governing body of Flood Control is the County's governing body. Among its duties, it approves Flood Control's budget, tax rates, contracts, and appoints the management. Flood Control is reported as both governmental and proprietary fund types.

Riverside County Regional Park and Open-Space District (Park District) The governing board of the Park District is the County's governing body. Among its duties, it approves the Park District's budget, contracts, fees and charges for park use, and appoints the management. The Park District is reported as both governmental and fiduciary fund types.

Riverside County Desert Facilities Corporation (Desert Facilities) The corporation was dissolved in fiscal year 2006. Remaining balances were transferred to the County of Riverside Asset Leasing Corporation.

County of Riverside Redevelopment Agency (RDA) The governing body of the RDA is the County's governing body. Among its duties, it approves the RDA's budget and appoints the management. The RDA is reported as a governmental fund type.

County of Riverside Asset Leasing Corporation (CORAL) The governing board of CORAL is appointed by the County's governing board and CORAL provides services entirely to the County through the purchase or construction of land and/or facilities, which are then leased back to the County. CORAL is reported as a governmental fund type.

Riverside County Service Areas (CSAs) The governing body of the CSAs is the County's governing body. Among its duties, it approves the CSAs' budgets, approves parcel fees, and appoints the management. The CSAs are reported as either governmental or proprietary fund types.

Riverside County Public Financing Authority (Public Financing Authority) The governing body of the Public Financing Authority is the County's governing body. The Public Financing Authority was formed for the purpose of assisting in financing public improvements of the County, the RDA and other local agencies. The Public Financing Authority is reported as a governmental fund type.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

County of Riverside District Court Financing Corporation (District Corporation) The governing body of the District Corporation is the County's governing body. The District Corporation assists the County by providing for the acquisition, construction and renovation of certain leased premises and other public facilities and improvements. The District Corporation is reported as a governmental fund type.

County of Riverside Bankruptcy Court Corporation (Bankruptcy Court) The governing body of the Bankruptcy Court is the County's governing body. The Bankruptcy Court assists the County by providing for the acquisition, construction and renovation of public facilities and improvements. The Bankruptcy Court is reported as a governmental fund type.

In-home Support Services Public Authority (IHSS PA) The governing body of the IHSS PA is the County's governing body. The IHSS PA acts as the employer for Riverside In-home Supportive Services providers and performs other IHSS functions as required and retained by the County. The In-home Support Services Public Authority is reported as governmental fund type.

Discretely Presented Component Unit

Riverside County Children and Families Commission (Commission) A governing board of nine members, which are appointed by the County Board of Supervisors, administers the Commission. The membership includes one member of the County Board of Supervisors. The Commission was formed to develop, adopt, promote and implement early childhood development programs, which do not directly benefit the County.

Additional detailed financial information for each of these entities can be obtained from the Auditor-Controller's Office at the Robert T. Anderson Administrative Center, 4080 Lemon Street – 11th Floor, (P.O. Box 1326), Riverside, CA 92502-1326.

Presentation of financial information related to County fiduciary responsibilities.

The basic financial statements also include an Investment Trust fund to account for cash and investments held by the County Treasurer for numerous self-governed school and special districts. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursement of these assets. School and special district boards that are separately elected and that are independent of the County Board of Supervisors, administer activities of the school districts and special districts. The County Auditor-Controller makes disbursements upon the request of the responsible self-governed special district officers. The Board has no effective authority to govern, manage, approve budgets, assume financial accountability, establish revenue limits, or appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County. Twenty-four cities and numerous self-governed special districts provide services to the residents of the County. The operations of these entities have been excluded from the basic financial statements since each entity conducts its own day-to-day operations and is controlled by its own governing board.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Governmental Accounting Standards Board Statements and Standards

Governmental Accounting Standards Board Statement No. 47

In June of 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement is effective for periods beginning after June 15, 2005. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The County has implement GASB No. 47 and no accrual is necessary as of June 30, 2006.

Future Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 43

In April of 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after December 15, 2005. This Statement establishes uniform financial reporting standards for other nonpension benefits (OPEB) plans and supersedes the interim guidance included in Statement No. 26. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. The County has elected not to early implement GASB No. 43 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No. 45

In August of 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after December 15, 2006. The statement generally requires that state and local governmental employers account for and report the annual cost of other nonpension benefits (OPEB) and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The County has elected not to implement GASB No. 45 early.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, excluding fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely, to a significant extent, on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Expenses by function have been adjusted for any internal service profit/loss existing at fiscal year-end. In addition, 22%, or $8.3 million, of the County's $37.1 million indirect costs, allocated through the Countywide Cost Allocation Program (COWCAP), have been included in the expenses of those functions which can obtain reimbursement through State and Federal Programs or other charges. Program revenues include (1) charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. *Operating* expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as *nonoperating* expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as general government, public protection, health and sanitation, public assistance, education, and recreation and culture services.

The *Public Facilities Improvements fund* accounts for revenues and expenditures related to the acquisition and construction of public buildings and park or recreational facilities. Revenues are obtained from State funding, sale of fixed assets, contributions, and from other funds when allocated by the Board of Supervisors.

The *Redevelopment Agency Capital Project fund accounts for* tax increment revenue used to pay principal and interest for Redevelopment Agency tax allocation bonds. These bonds are legal obligations of the Redevelopment Agency issued to finance construction of infrastructure and public facilities for various project areas.

The *Teeter Debt Service fund* accounts for revenue from collection of delinquent taxes, which is then used to pay principal and interest in association with taxable and tax-exempt commercial paper of the Teeter Plan.

The County reports the following major enterprise funds:

The *Regional Medical Center ("RMC")* accounts for the maintenance of physical plant facilities and quality care to all patients in accordance with accreditation standards, the bylaws, rules and regulations of the medical staff and the RMC. Revenue for this fund is primarily from charges for services and secondarily from the County's General Fund.

The *Waste Management Department ("Waste Management")* accounts for solid waste revenues, expenses, and the allocation of net income for solid waste projects initiated for the public's benefit. The fund facilitates management and accounting of solid waste projects. Waste Management prepares and maintains the County's Solid Waste Management Plan, provides environmental monitoring in accordance with State and Federal mandates, and administers landfill closure and acquisition.

The County reports the following additional fund types:

Internal Service Funds account for the County's records management and archives, fleet services, information services, printing services, supply services, OASIS project (accounting and human resources information system), risk management, temporary assistance pool, and flood control equipment on a cost-reimbursement basis. Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. In the government-wide financial statements, the changes in net assets at the end of the fiscal year, as presented in the statements of activities, were allocated to the functions of both the governmental and business-type activities, to reflect the entire activity for the year. Since the predominant users of the internal services are the County's governmental activities, the asset and liability balances of the internal service funds are consolidated into the governmental activities column at the government-wide level.

Pension Trust Fund accounts for resources held in trust for the members and beneficiaries of a defined benefit pension plan for County employees not eligible for social security or CalPERS participation. The County's pension trust fund uses the economic resources measurement focus and accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Trust Fund accounts for the external portion of the County Treasurer's investment pool. External investment pool participants include entities legally separate from the County, such as school and special districts governed by local boards, regional boards and authorities. This fund accounts for assets, primarily cash and investments held or invested by the County Treasurer and the related County liability to disburse these monies on demand to the related external entities. The County's investment trust fund uses the economic resources measurement focus and accrual basis of accounting.

Private Purpose Trust Fund accounts for resources held and administered by the County in a fiduciary capacity for individuals, private organizations, or other governments based on trust arrangements. The fund includes the public guardian conservatorship, public social service foster care, and maintenance and children's trust. The County's private purpose trust fund uses the economic resources measurement focus and accrual basis of accounting.

Agency Funds account for assets held by the County in a custodial capacity. These funds only involve the receipt, temporary investment, and remittance to individuals, private organizations, or other governments and include property taxes and special assessments collected on behalf of cities, special districts, and other taxing agencies. The County's agency funds have an accrual basis of accounting but no measurement focus.

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions occur. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources (e.g. bond issuance proceeds) are recognized when they become both measurable and available.

Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property and sales taxes are considered available for the year levied and are accrued when received within sixty days after fiscal year-end. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transaction*, are considered available and accrued if expected to be received within twelve months after fiscal year-end. All other revenue streams are considered available and accrued if they are expected to be received within ninety days after the fiscal year-end. Since revenue from these sources are not available to meet current period liabilities, these sources are financed through proceeds received from Tax and Revenue Anticipation Notes (TRANs) which are outstanding for a twelve month period. General capital assets acquisitions are reported as expenditures in governmental fund statements. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For business-type activities reported on the government-wide financial statements and proprietary fund financial statements, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Reconciliations are presented to explain the adjustments necessary to reconcile the fund financial statements to the government wide financial statements. These reconciliations are presented because governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements for governmental activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance of the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the County's pooled investments.

For purposes of the statement of cash flows, the County considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents.

Investments, including U.S. Treasury and Agency securities, are carried at fair value based on current market prices on a monthly basis. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within 90 days of June 30, 2006, which are carried at cost. Bond anticipation notes are carried at fair value. Commercial paper is carried at amortized cost. Investments in bankers' acceptances and nonparticipating guaranteed investment contracts are carried at cost.

Participating guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the funds' share price. Local Agency Obligations are carried at fair value based on the value of each participating dollar.

The fair value of a participants' position in the pool is not the same as the value of the pooled shares. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost, and accrued interest of the participants' percentage participation at the date of such withdrawal. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2006 to support the valuation.

State law requires that the County Treasurer hold all operating monies of the County, school districts and certain special districts. Collectively, these mandatory deposits constituted approximately 85.6% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 14.4% of the total funds on deposit in the County Treasury represented discretionary deposits.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investments and reports its findings to the Board. The Investment Oversight Committee has also reviewed investment policies for funds held outside the County Treasury. The pool is not registered with the Securities and Exchange Commission.

Receivables

The Regional Medical Center accounts receivable are reported at their gross value and, where appropriate, are reduced by contractual allowances and the estimated uncollectible amounts. The estimated allowance for uncollectibles and allowance for contractuals are $238.1 million and $626.9 million, respectively. The Regional Medical Center has contracted with a Medi-Cal managed care plan to provide services to patients enrolled with Medicare and Medi-Cal programs. The Regional Medical Center receives a fixed monthly premium payment for each patient enrolled. Revenue under this agreement is recognized in the period in which the Regional Medical Center is required to provide services.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and the Revenue and Taxation Code. Property is assessed by the County Assessor and State Board of Equalization at 100% of full cash or market value (with some exceptions) pursuant to Article XIIIA of the California State Constitution and statutory provisions. The total fiscal year 2005-06 gross assessed valuation of the County was $212.1 billion.

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, RDA has entered into pass-through agreements with various governmental agencies to "pass-through" portions of tax increment funds received by RDA, attributable to the area within the territorial limits of other agencies.

The property tax levy to support general operations of the various local government jurisdictions is limited to one percent (1%) of the full cash value of taxable property and distributed in accordance with statutory formulas. Amounts needed to finance the annual requirements of voter-approved debt (approved by the electorate prior to June 30, 1978) are excluded from this limitation and are calculated and levied each fiscal year. The rates are formally adopted by either the Board or the city councils and, in some instances, the governing board of a special district.

The County is divided into tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved indebtedness.

Property taxes are levied on both real and personal property and are recorded as receivables at the date of levy. Secured property taxes are levied on or before the first business day of September of each year. These taxes become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. Tax payments can be made in two equal installments; the first is due November 1 and are delinquent with penalties after December 10; the second is due February 1 and are delinquent with penalties after April 10. Secured property taxes that are delinquent and unpaid as of June 30th are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due and any excess is remitted, if claimed, to the taxpayer.

Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1, and become delinquent, if unpaid, on August 31.

During the 1993-94 fiscal year, the County authorized an alternative property tax distribution method referred to as the "Teeter Plan". This method allows for a 100% distribution of the current secured property tax levy to entities electing the alternative method, as compared to the previous method where only the current levy less any delinquent taxes were distributed. This results in the General Fund receiving distributions of approximately 50-55% in December, 40-45% in April and the remaining 5% in July of each year. The Teeter Plan also provides that all of the payments of redemption penalties and interest on delinquent secured property taxes of participating agencies flow to a tax loss reserve fund (TLRF). Any amounts on deposit in the TLRF greater than one percent (1%) of the tax levy for participating entities may flow to the County General Fund. For fiscal year 2005-06, $10 million was transferred from the TLRF to the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid assets recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reserved.

Inventories, which consist of materials and supplies held for consumption, are valued at the lower of cost (on a first-in, first-out basis) or market in the proprietary funds. Inventories for all governmental funds are valued at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures when consumed rather than when purchased. Material amounts of inventory are reported as assets of the respective fund. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads, bridges, traffic signals, park trails and improvements, flood control channels, storm drains, dams, and basins. The capitalization threshold for equipment is $5,000. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Infrastructure	
Flood channels	99 years
Flood storm drains	65 years
Flood dams and basins	99 years
Roads	20 years
Traffic signals	10 years
Parks trails and improvements	20 years
Bridges	50 years
Buildings	25-50 years
Improvements	10-20 years
Equipment	3-20 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position.

Interest is capitalized on construction in progress in the proprietary funds in accordance with Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest carried on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. The Riverside County Regional Medical Center capitalizes net interest expense as a cost of property constructed. The Medical Center capitalized $402,043 for the year ended June 30, 2006.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Pursuant to GASB Statement No. 34, an extended period of deferral until the end of fiscal year 2006, is available before the requirement is effective to record and depreciate infrastructure assets acquired prior to July 1, 2001. As a result, the retroactive historical value of the County's transportation infrastructure assets (roads, bridges, and traffic signals that were completed prior to July 1, 2001) has been included in the government-wide financial statements, as of June 30, 2006. The County's infrastructure assets are recorded at historical cost or at estimated historical cost in the government-wide financial statements as required by GASB Statement No. 34. All current year additions to infrastructure assets are depreciated.

Leases

The County leases various assets under both operating and capital lease agreements. For governmental funds, assets under capital leases and the related lease obligations are reported in the government-wide financial statements. For proprietary funds, the assets and related lease obligations are recorded in the appropriate enterprise or internal service fund and the government-wide financial statements.

Restricted Assets

The County maintains various restricted asset accounts as a result of debt agreements and certain State statutes. The agreements authorizing the issuance of CORAL, Desert Facilities, and Housing Authority outstanding debt include certain covenants pertaining to the disposition of bond proceeds for construction, acquisition, and bond redemption purposes. Waste Management has restricted assets to meet requirements of State and Federal laws and regulations to finance closure and post-closure maintenance activities at landfill sites. The General Fund has restricted assets for program money where use is legally or contractually restricted.

Land Held for Resale

These assets, held by the County's Redevelopment Agency, are invested in various programs and are intended primarily for development and subsequent resale. These assets had a fair value of $26.0 million at June 30, 2006.

Employee Compensated Absences

County policy permits employees in some bargaining units to accumulate earned but unused vacation, holiday and sick pay benefits. Vacation and holiday pay are accrued when incurred. For other bargaining units, annual leave is earned and accrued, but not vacation or sick leave. Proprietary funds report accrued vacation and holiday pay as a liability of the individual fund while governmental funds record amounts that are due and payable at year-end as a liability of the fund and amounts due in the future as a liability in the government-wide financial statements. At June 30, 2006, the amount of accrued vacation, holiday pay and sick leave reported in the government-wide statement of net assets was $137.7 million.

The County allows unlimited accumulation of sick leave. Upon retirement, disability retirement or death of an employee, unused accumulated sick leave is paid to the employee or the employee's estate at the rate of ten (10) percent of the current salary for five full years of service, plus two (2) percent for each additional year to a maximum of fifty (50) percent with the total payment no more than 120 days of full pay. In addition, there is an optional payout of sick leave for health insurance premiums for certain employees.

Deferred Revenue / Unearned Revenue

Deferred revenue arises when a potential revenue transaction does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the County has a legal claim to them, such as grants received in advance of incurring qualified expenditures. Unearned revenue is used for government-wide presentation only.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Debt

The County reports long-term debt of governmental funds in the government-wide statement of net assets. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide statement of net assets. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund and the government-wide statement of net assets.

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, bond issuance costs, and deferred losses on refundings are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, and deferred losses on refundings.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds, received are reported as debt service expenditures.

Bond Issuance Costs

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Landfill Closure and Post-Closure Care Costs

Waste Management provides for closure and post-closure care costs over the life of the operating landfills as the permitted airspace of the landfill is used. Accordingly, the entire closure and post-closure care cost is recognized as expense by the time the landfills are completely filled. Waste Management also recognizes as expense closure and post-closure care costs for inactive landfills that have been closed under State and Federal regulations.

Waste Management, under State and Federal regulations, may be required to perform corrective action for contaminate releases at any of its active or inactive landfills. Waste Management provides for remediation costs for landfills upon notification from the local water quality board that a specific landfill is considered to be in the "evaluation monitoring" phase. Upon notification, Waste Management provides for these costs based on the most recent cost study information available.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables, as appropriate. These transactions are subject to elimination upon consolidation and are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/advances from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the governmental fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are neither available for appropriation nor available as financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The government-wide financial statements and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted net assets, or unrestricted net assets.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or legislation.

Unrestricted Net Assets – This category represents net assets of the County, not restricted for any project or other purpose.

Fund Equity

In the fund financial statements, fund equity may be categorized as reserved and/or designated. Governmental funds report reservations of fund balance for amounts that are not appropriable or that are legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

On or before October 2 of each fiscal year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors (the Board) adopts a budget in accordance with the provisions of Section 29000-29144 and 30200 of the Government Code of the State of California (the Government Code), commonly known as the County Budget Act, and Board Resolution No. 90-338. Annual budgets are adopted on the modified accrual basis of accounting in conformity with generally accepted accounting principles. Budgeted governmental funds consist of the general fund, major funds and some non-major funds (all special revenue funds, certain debt service funds and certain capital project funds). Annual budgets are not adopted for the following debt service funds: CORAL, Desert Facilities Corporation, District Court Financing Corporation, Bankruptcy Court, or the following capital project funds: CORAL, and District Court Financing Corporation.

As adopted by the Board, expenditures are controlled by the County at the budgetary unit, which is the organization level, for each appropriation (object) class. The appropriation classes are salaries and benefits, services and supplies, other charges, capital assets, transfers out and intrafund transfers. The separately prepared Expenditure by Appropriation – Budget and Actual report, showing budgetary comparisons at the object level of control, is available in the Auditor-Controller's Office.

Each year the original budget, as published in a separate report the "Final Budget," is adjusted to reflect increases or decreases in revenues and changes in fund balance. These changes are offset by an equal change in available appropriations. The county executive officer is authorized by the board to transfer appropriations between appropriation classes within the same budgetary unit. Transfers of appropriations between budgetary units require approval of the board (legal level of control). Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act. All annual appropriations lapse at year-end.

A budgetary comparison statement is prepared for the general fund and is part of the basic financial statements. The budgetary comparison statement provides three separate types of information: (1) the original budget; (2) the final amended budget, which included legally authorized changes regardless of when they occurred; and (3) the actual amount of inflows and outflows in the budget-to-actual comparison.

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences (in thousands):

	Total Governmental Funds (Page	Long-term Assets and Liabilities	Internal Service Funds	Eliminations	Statement of Net Assets Totals (Page 23)
Assets:					
Cash and investments	$ 1,080,919	$ -	$ 188,115	$ -	$ 1,269,034
Receivables:					
Accounts receivable	53,426	-	2,334	-	55,760
Interest	15,497	-	1,141	-	16,638
Taxes	48,096	-	-	-	48,096
Due from other governments	218,391	(55,784)	-	-	162,607
Notes receivable	14,703	-	-	-	14,703
Inventories	3,695	-	2,333	-	6,028
Due from other funds	7,073	-	-	(7,073)	-
Prepaid Items	1,911	-	111	-	2,022
Internal balances	-	-	-	14,077	14,077
Pension asset, net	-	387,945	-	-	387,945
Restricted cash and investments	382,154	-	-	-	382,154
Other noncurrent receivables	-	55,784	-	-	55,784
Advances to other funds	20	-	200	(220)	-
Land held for resale	26,079	-	-	-	26,079
Capital assets:					
Nondepreciable	-	515,404	836	-	516,240
Depreciable, net	-	1,502,408	42,012	-	1,544,420
Bond issuance costs	-	13,989	-	-	13,989
Total assets	$ 1,851,964	$ 2,419,746	$ 237,082	$ 6,784	$ 4,515,576

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

	Total Governmental Funds	Long-term Assets and Liabilities	Internal Service Funds	Eliminations	Statement of Net Assets Totals (Page 23)
Liabilities:					
Accounts payable	$ 116,930	$ -	$ 11,449	$ -	$ 128,379
Salaries and benefits payable	68,907	-	4,378	-	73,285
Due to other funds	5,899	-	-	(5,899)	-
Due to other governments	39,548	-	-	-	39,548
Interest payable	-	11,107	-	-	11,107
Deposits payable	401	-	-	-	401
Deferred revenue / Unearned revenue	161,311	(87,331)	-	-	73,980
Notes payable	58,394	-	-	-	58,394
Other Liabilities	-	-	2,167	-	2,167
Long-term liabilities due within one year:					
Bonds payable	-	10,165	-	-	10,165
Capital lease obligations	-	5,789	7,399	-	13,188
Certificates of participation	-	12,695	-	-	12,695
Loans payable	-	1,351	-	-	1,351
Compensated absences	-	67,403	2,668	-	70,071
Estimated claims liability	-	-	37,945	-	37,945
Advance from other funds	20	-	200	(220)	-
Long-term liabilities due in more than one year:					
Bonds payable	-	804,278	-	-	804,278
Capital lease obligations	-	58,454	12,187	-	70,641
Certificates of participation	-	335,791	-	-	335,791
Loans payable	-	112,032	-	-	112,032
Accreted interest payable	-	1,495	-	-	1,495
Compensated absences	-	49,449	2,666	-	52,115
Estimated claims liability	-	-	92,219	-	92,219
Other long term liabilities	-	-	1,500	-	1,500
Total liabilities	451,410	1,382,678	174,778	(6,119)	2,002,747
Fund balances/net assets:					
Total fund balances/net assets	1,400,554	1,037,068	62,304	12,903	2,512,829
Total liabilities and fund balances/net assets	$ 1,851,964	$ 2,419,746	$ 237,082	$ 6,784	$ 4,515,576

NOTE 4 – RESTATEMENTS OF BEGINNING FUND BALANCES / NET ASSETS

The County's beginning fund balances/net assets have been restated to reflect the cumulative effect of prior year adjustments and reclassifications. A summary of the restatements as of June 30, 2006 is as follows (in thousands):

Governmental Funds:

Description	General Fund
Fund balances as of June 30, 2005, as previously reported	$ 352,454
Effect of change in accounting principal: Revenues[1]	(13,133)
Fund balances, as of June 30, 2005, as restated	$ 339,321

[1] During fiscal year 2006, the County changed its availability period for accruing governmental fund revenues from 12 months to 90 days (exclusive of expenditure driven grants). The change in accounting principal resulted in a net decrease of $13 million to the general fund's fund balance.

Government-wide restatement to net assets:

	Governmental Activities
Government-wide net assets, as of June 30, 2005, as previously reported	$ 1,664,120
Effects of GASB 34 Implentation-Reporting of Retroactive Infrastructure (Note 9)	472,806
Net assets as of June 30, 2005, as restated	$ 2,136,926

NOTE 5 – CASH AND INVESTMENTS

Cash and Investments

As of June 30, 2006, Cash and Investments are classified in the accompanying financial statements as follows (in thousands):

	Total Governmental Activities	Total Business-type Activities	Total Component Unit	Total Fiduciary Funds	Total
Cash and investments	$ 1,269,034	$ 93,361	$ 51,970	$ 2,703,947	$ 4,118,312
Restricted cash and investments	382,154	114,620	-	-	496,774
Total cash and investments	$ 1,651,188	$ 207,981	$ 51,970	$ 2,703,947	$ 4,615,086

As of June 30, 2006, cash and investments consist of the following (in thousands):

Deposits	$ 270,718
Investments	4,344,368
Total cash and Investments	$ 4,615,086

NOTE 5 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the County's Investment Policy

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the County's investment policy, where more restrictive that address interest rate, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
California Agency Bonds	3 Years	15% / $150mm	2.50%
US Treasury	5 Years	100%	None
Riverside Co Local Agency Debt	3 Years	2.5%	1.25%
Federal Agencies	5 Years	None	None
Bills of Exchange	180 Days	30%	None
Commercial Paper	270 Days	40%	$50mm
Certificate & Time Deposits	1 Year	2%	$50mm
Repurchase Agreements	45 Days	40% / 25%	None
Reverse Repurchase Agreements	60 Days	10%	10%
Medium Term Notes	2 Years	20%	$25mm
CalTrust Short Term Fund	Daily Liquidity	1%	1%
Mutual Funds	Daily Liquidity	20%	None
Secured Bank Deposits	1 Year	2%	None
Mortgage Pass-Through Securities	N/A	20%	None
Local Agency Investment Funds	3 Years	None	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements of respective component units, rather than the general provisions of the California Government Code or the County's investment policy. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so a portion of the portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity required for operations.

NOTE 5 – CASH AND INVESTMENTS (Continued)

As of June 30, 2006, the County had the following investments (in thousands):

Investment	Maturity	Fair Value	Weighted Average Maturity (Years)
Treasury investments			
Commercial Paper	07/09 - 11/06	$ 671,562	0.10
Federal Farm Credit Bank	07/06 - 09/08	280,492	1.00
Federal Home Loan Bank	07/06 - 06/09	792,875	0.85
FHLC - FHLB	09/06 - 06/09	711,336	1.47
Federal Home Loan Disc	08/30/06	2,469	0.17
Federal Nat Mort Assn	07/06 - 06/09	489,977	1.79
FNMA Disc Notes	08/06 - 11/06	171,769	0.23
Federal Home Loan Mort Cp	10/06	51,596	0.33
Local Agency Obligations	07/12 - 06/20	1,735	9.70
Medium Term Notes	09/06 - 01/08	39,699	0.82
Municipal Bonds	08/06 - 08/07	38,809	0.49
Negotiable CDs	07/06 - 11/06	688,007	0.16
Time Deposits	09/06 - 10/06	20,000	0.24
Total treasury investments		3,960,326	
Investments outside the treasury			
Money Market	N/A	165	0.00
Investment Agreements	07/06 - 11/13	105,272	2.00
Investment Agreements	07/06 - 08/19	19,600	0.70
Investment Agreements	09/08	122,167	0.66
Investment Agreements	10/09	110,649	0.94
Investment Agreements	10/33	820	0.06
Investment Agreements	10/35	7,026	0.54
Investment Agreements	10/37	7,340	0.60
Local Agency Investment Funds	N/A	11,003	0.00
Total investments outside the treasury		384,042	
Total investments		$ 4,344,368	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contain legal or policy requirements that would limit the County's exposure to custodial credit risk for deposits or investments except for the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 Requires that disclosure is made with respect to custodial credit risks relating to deposits. The County has cash deposits with fiscal agents in excess of federal depository insurance limits held in collateralized accounts with securities held by Union Bank of California in the amount $230.7 million. Investment securities are registered and held in the name of Riverside County.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 5 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The investment policy of the County contains certain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. In accordance with GASB 40, Deposits and Investment Risk Disclosures, the County should provide information about the concentration of credit risk associated with their investments in any one issuer that represent 5% or more of total County investments. However, money market and mutual funds are excluded from this disclosure requirement. Instruments in any one issuer that represent 5% or more of County investments are as follows (in thousands):

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency	$ 277,529
Federal Home Loan Bank	Federal Agency	878,448
FHLC-FHLB Mortgage Certificates	Federal Agency	702,360
Federal National Mortgage Association	Federal Agency	485,060

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of June 30, 2006, the County had the following investments (in thousands):

Investment	Maturity	Minimum Legal Rating	Rating June 30, 2006	Fair Value
Treasury Investments				
Commercial Paper	07/09 - 11/06	A1/P1	A1/P1 *	$ 671,562
Federal Farm Credit Bank	07/06 - 09/08	AAA	AAA	280,492
Federal Home Loan Bank	07/06 - 06/09	AAA	AAA	792,875
FHLC - FHLB	09/06 - 06/09	AAA	AAA	711,336
Federal Home Loan Disc	08/30/06	AAA	AAA	2,469
Federal Nat Mort Assn	07/06 - 06/09	AAA	AAA	489,977
FNMA Disc Notes	08/06 - 11/06	AAA	AAA	171,769
Federal Home Loan Mort Cp	10/06	AAA	AAA	51,596
Local Agency Obligations	07/12 - 06/20	N/A	N/A	1,735
Medium Term Notes	09/06 - 01/08	A	AAA	39,699
Municipal Bonds	08/06 - 08/07	A	AAA	38,809
Negotiable CDs	07/06 - 11/06	A1/P1	A1/P1 *	688,007
Time Deposits	09/06 - 10/06	N/A	N/A	20,000
Total Treasury Investments				3,960,326
Investments Outside the Treasury				
Money Market	N/A	N/A	NR	165
Investment Agreements	08/13	AA	AA/AA+	105,272
Investment Agreements	02/19	AA	AA	19,600
Investment Agreements	09/08	NA	AAA	122,167
Investment Agreements	10/09	NA	Aa	110,649
Investment Agreements	10/33	NA	AAA	820
Investment Agreements	10/35	NA	AAA	7,026
Investment Agreements	10/37	NA	AAA	7,340
Local Agency Investment Funds	N/A	NA	NR	11,003
Total Investments Outside the Treasury				384,042
Total Investments				$ 4,344,368

* Majority of Commercial Paper and Negotiable CDs are A1+/P1

NOTE 6 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2006 is as follows (in thousands):

	General Fund	Teeter Debt Service	Nonmajor Governmental Funds	Regional Medical Center	Waste Management Department	Nonmajor Enterprise Funds
1985 Certificates	$ -	$ -	$ 23,367	$ -	$ -	$ -
1989/1993 Hospital Bonds	-	-	-	30,844	-	-
1990 Monterey Avenue	-	-	158	-	-	-
1997 B & C Hospital	-	-	-	29	-	-
1997 Family Law Court	-	-	9	-	-	-
1997 Historic Court House	-	-	278	-	-	-
1997 Lease Refunding	-	-	378	-	-	-
1998 Larson Justice Center	-	-	24	-	-	-
2000 Southwest Justice Center	-	-	513	-	-	-
2001 CAC Annex	-	-	2,557	-	-	-
2003 A Historic Courthouse	-	-	6,043	-	-	-
2003 B Capital Facilities	-	-	2,473	-	-	-
2005 A Capital Improvement Family Law	-	-	36,361	-	-	-
2005 B Historic Refunding	-	-	2,164	-	-	-
2006 A Capital Improvements	-	-	30,947	-	-	-
Waste Management	-	-	-	-	77,543	-
Housing Authority Bond	-	-	-	-	-	1,757
District Court Project	-	-	912	-	-	-
Restricted Program Money	228,897	-	1,939	2,230	-	2,217
Teeter Commercial Paper Notes	-	39,868	-	-	-	-
Bankruptcy Courthouse	-	-	5,266	-	-	-
Total Restricted Assets	$ 228,897	$ 39,868	$ 113,389	$ 33,103	$ 77,543	$ 3,974

At June 30, 2006 County management believes that the County is in compliance with all significant terms of its debt agreements and all State statute requirements.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 7 - RECEIVABLES

Receivables at year-end of the County's major individual funds, nonmajor funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows (in thousands):

Receivables Governmental Activities:	General Fund	Teeter Debt Service	Public Facilities Improvements	Redevelopment Capital Projects	Major Governmental Funds
Accounts	$ 43,255	$ -	$ -	$ -	$ 43,255
Interest	9,124	223	1,471	1,296	12,114
Taxes	19,939	21,932	-	-	41,871
Due from other governments	206,270	-	20	-	206,290
Notes	-	-	-	-	-
Total receivables	$ 278,588	$ 22,155	$ 1,491	$ 1,296	$ 303,530

Receivables Governmental Activities:	Major Governmental Funds	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	$ 43,255	$ 10,171	$ 2,334	$ 55,760
Interest	12,114	3,383	1,141	16,638
Taxes	41,871	6,225	-	48,096
Due from other governments	206,290	12,101	-	218,391
Notes	-	14,703	-	14,703
Total receivables	$ 303,530	$ 46,583	$ 3,475	$ 353,588

Receivables Business-type Activities:	Regional Medical Center	Waste Management	Nonmajor Funds	Total Business-type Activities
Accounts	$ 913,111	$ 5,045	$ 1,788	$ 919,944
Interest	475	964	54	1,493
Taxes	-	-	9	9
Due from other governments	15,176	246	135	15,557
Gross receivables	928,762	6,255	1,986	937,003
Less: Allowance for contractuals	(626,988)	-	-	(626,988)
Allowance for uncollectibles	(238,103)	(4)	-	(238,107)
Total receivables	$ 63,671	$ 6,251	$ 1,986	$ 71,908

Of the total governmental receivable of $353.6 million, $55.8 million is SB-90 long term receivable.

Governmental funds report deferred revenue in connection with receivables for revenue not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At June 30, 2006, the components of deferred/unearned revenue were as follows (in thousands):

Governmental activities:	Unavailable	Unearned
General fund:		
Due from other governments, current portion	$ 87,237	$ -
Resources received that do not yet meet the criteria for revenue recognition	-	52,864
Public Facilities Improvement Capital Projects:		
Resources received that do not yet meet the criteria for revenue recognition		6
Nonmajor funds:		
Due from other governments	94	-
Resources received that do not yet meet the criteria for revenue recognition	-	21,110
Total governmental	$ 87,331	$ 73,980

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 8 – INTERFUND TRANSACTIONS

Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2006 is as follows (in thousands):

Due to/from other funds:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Regional Medical Center	$ 2,363	Medical Services
	Teeter Debt Service Fund	3,524	Delinquent Property Taxes
	Nonmajor Governmental Funds	8	Air Quality Management
		5,895	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,178	Various Interfund Activities
Regional Medical Center	General Fund	1,189	Indigent Healthcare Services
Total		$ 8,262	

These interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made.

Interfund Receivables/ Payables

Advances to / from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 20
Total		$ 20

The balance of $20 thousand advance to the Community Service fund from the General Fund resulted from loans made to provide for cash flow needs.

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and reallocations of special revenue. The following schedule briefly summarizes the County's transfer activity (in thousands):

(a) Between Governmental and Business-type Activities:

Transfer out	Transfer in	Amount	Purpose
Operating or debt subsidy:			
General Fund	Regional Medical Center	$ 15,669	Reimbursement
Regional Medical Center	General Fund	32,051	Operating Contribution
Regional Medical Center	Nonmajor	2,987	Pension Obligation
		35,038	
Waste Management	Nonmajor Governmental	346	Pension Obligation
Nonmajor Enterprise	Nonmajor Governmental	173	Pension Obligation
	Total	$ 51,226	

NOTE 8 – INTERFUND TRANSACTIONS (Continued)

(b) Between Funds within the Governmental Activities:[1]

Transfer out	Transfer in	Amount	Purpose
Operating or debt subsidy:			
General Fund	Nonmajor Governmental Funds	$ 8,128	Overhead reimbursement
	Nonmajor Governmental Funds	9,273	Reimbursement
	Nonmajor Governmental Funds	20,969	Pension Obligation
	Nonmajor Governmental Funds	799	Leases
	Teeter	7,012	Debt service
	Internal Service Funds	4,570	Reimbursement
	Public Facilities	37,720	Capital projects
	Redevelopment Capital Project	32	Capital projects
		88,503	
Teeter	General	5,159	Debt Service
		5,159	
Public Facilities Improvement	Nonmajor Governmental Funds	20,413	Overhead reimbursement
	General Fund	3,068	Capital projects
		23,481	
Redevelopment Capital Project	General Fund	366	Miscellaneous
	Nonmajor Governmental Funds	6,766	Overhead reimbursement
	Nonmajor Governmental Funds	5,189	Administrative support
		12,321	
Nonmajor Governmental Funds	General Fund	4	Overhead reimbursement
	General Fund	50,216	Fire Services
	General Fund	3,725	Administrative support
	General Fund	2,904	Leases
	General Fund	453	Law Enforcement
	General Fund	3,069	Professional services
	General Fund	1,731	Miscellaneous
	Public Facilities Capital Project	509	Capital Projects
	Redevelopment Capital	8,018	Debt Service
	Nonmajor Governmental Funds	14,105	Debt Service
	Nonmajor Governmental Funds	1,582	Pension Obligation
	Nonmajor Governmental Funds	522	CDBG
	Nonmajor Governmental Funds	3,376	Leases
	Nonmajor Governmental Funds	1,183	Miscellaneous
	Nonmajor Governmental Funds	2,190	Overhead reimbursement
	Nonmajor Governmental Funds	8,722	Reimbursement
	Nonmajor Governmental Funds	30,031	Capital projects
	Internal Service	207	Reimbursement
		132,547	
Internal Service Funds	General Fund	840	Business services
	Internal Service Funds	2,167	Reimbursement
	Nonmajor Governmental Funds	1,204	Pension Obligation
		4,211	
	Total	$ 266,222	

1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	Balance July 1, 2005	Retroactive Infrastructure	Additions	Retirements	Transfers	Balance June 30, 2006
Governmental activities:						
Capital assets, not being depreciated:						
Land & easements	$ 306,654	$ 14	$ 13,881	$ (109)	$ (14)	$ 320,426
Construction in progress	122,449	-	113,806	(74)	(40,367)	195,814
Total capital assets, not being depreciated	429,103	14	127,687	(183)	(40,381)	516,240
Capital assets, being depreciated:						
Infrastructure						
Flood channels	187,894	-	24,624	-	33,064	245,582
Flood storm drains	189,033	-	-	-	-	189,033
Flood dams and basins	30,404	-	-	-	-	30,404
Roads	96,632	1,070,085	23,929	-	(580)	1,190,066
Traffic signals	9,776	8,807	-	-	-	18,583
Bridges	4,829	95,154	-	-	-	99,983
Runways	3,624	-	-	-	3,169	6,793
Parks trails and improvements	1,476	-	1,447	-	-	2,923
Land improvements	110	-	-	-	(99)	11
Structures and improvements	601,657	-	41,317	(23)	1,755	644,705
Equipment	289,194	-	35,450	(8,976)	(303)	315,364
Total capital assets, being depreciated	1,414,629	1,174,046	126,766	(8,999)	37,006	2,743,448
Less accumulated depreciation for:						
Infrastructure	(76,289)	(701,254)	(11,369)	-	-	(788,912)
Land improvements	(11)	-	-	-	-	(11)
Structures and improvements	(145,690)	-	(33,103)	8	-	(178,785)
Equipment	(217,040)	-	(21,447)	7,629	(463)	(231,320)
Total accumulated depreciation	(439,030)	(701,254)	(65,919)	7,637	(463)	(1,199,028)
Total capital assets, being depreciated, net	975,599	472,792	60,848	(1,362)	36,543	1,544,420
Governmental activities capital assets, net	$ 1,404,702	$ 472,806	$ 188,534	$ (1,545)	$ (3,838)	$ 2,060,660

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 9 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	Balance July 1, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Business-type activities:					
Capital assets, not being depreciated:					
Land & easements	$ 21,095	$ -	$ -	$ -	$ 21,095
Construction in progress	14,465	11,072	(630)	(7,306)	17,601
Total capital assets, not being depreciated	35,560	11,072	(630)	(7,306)	38,696
Capital assets, being depreciated:					
Land improvements	11,662	-	-	-	11,662
Infrastructure-landfill liners	27,580	28	-	7,306	34,914
Infrastructure-other	7,246	50	-	-	7,296
Structures and improvements	204,415	7,403	-	-	211,818
Equipment	102,367	3,042	(1,689)	-	103,720
Total capital assets, being depreciated	353,270	10,523	(1,689)	7,306	369,410
Less accumulated depreciation for:					
Land improvements	(3,927)	(582)	-	-	(4,509)
Infrastructure-landfill liners	(8,076)	(1,654)	-	-	(9,730)
Infrastructure-other	(1,924)	(419)	-	-	(2,343)
Structures and improvements	(49,414)	(6,482)	-	-	(55,896)
Equipment	(83,099)	(4,744)	1,689	-	(86,154)
Total accumulated depreciation	(146,440)	(13,881)	1,689	-	(158,632)
Total capital assets, being depreciated, net	206,830	(3,358)	-	7,306	210,778
Business-type activities capital assets, net	$ 242,390	$ 7,714	$ (630)	$ -	$ 249,474

Depreciation

Depreciation expense was charged to governmental functions as follows (in thousands):

General government	$ 12,475
Public protection	30,678
Health and sanitation	634
Public assistance	1,569
Public ways and facilities	7,852
Recreation and culture	531
Depreciation on capital assets held by the County's internal service funds is charged to the various functions based on their use of the assets	12,180
Total depreciation expense – governmental functions	$ 65,919

NOTE 9 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the business-type functions as follows (in thousands):

Regional Medical Center	$ 7,578
Waste Management	4,510
Housing Authority	1,766
County Service Areas	6
Flood Control	21
Total depreciation expense – business-type functions	$ 13,881

Capital Leases

	Governmental	Business Type
Structures and Improvements	$ 1,386	$ -
Equipment	170,545	8,492
Less: Accumulated amortization	(127,819)	(3,840)
Total leased property, net	$ 44,112	$ 4,652

Discretely Presented Component Unit

Activity for the Riverside County Children and Families Commission for the year ended June 30, 2006, was as follows (in thousands):

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets, being depreciated:				
Equipment	$ 247	$ 65	$ -	$ 312
Total capital assets, being depreciated	247	65	-	312
Less accumulated depreciation for:				
Equipment	(122)	(48)	-	(170)
Total accumulated depreciation	(122)	(48)	-	(170)
Total capital assets, net	$ 125	$ 17	$ -	$ 142

NOTE 10 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

Waste Management (Waste) has recorded $78.9 million as landfill closure and post-closure care expense to date (based on the use of the estimated capacities of the landfill ranging from 26% to 100%). State and Federal laws and regulations require Waste to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Waste will recognize the remaining estimated cost of $36.8 million as the remaining estimated capacity of 22.5 million tons is filled. Waste expects all currently permitted landfill capacities to be filled by 2032. The total estimate of $115.8 million is based on what it would cost to perform all closure and post-closure care costs at present value. Actual costs may be different due to inflation, changes in technology or changes in regulations.

Cumulative expenses, percentage of landfill capacity used to date, and the estimated remaining landfill life by operating landfill are as follows (in thousands):

Facility Name (City)	Cumulative Expense	Capacity Used as of June 30, 2006 %	Estimated Years Remaining
Anza (Anza)	$ 2,717	100.0	-
Badlands (Moreno Valley)	11,397	40.9	10
Blythe (Blythe)	1,773	29.0	26
Coachella (Coachella)	8,528	100.0	-
Desert Center (Desert Center)	701	69.1	5
Double Butte (Winchester)	9,840	100.0	-
Edom Hill (Cathedral City)	18,808	100.0	-
Highgrove (Riverside)	6,530	100.0	-
Lamb Canyon (Beaumont)	5,178	26.1	17
Mead Valley (Perris)	8,471	100.0	-
Mecca II (Mecca)	2,686	98.2	1
Oasis (Oasis)	2,270	70.0	25
	$ 78,899		

Waste is required by State and Federal laws and regulations to make annual contributions to a trust fund to finance closure and post-closure care. Title 14 of the California Code of Regulations (CCR) requires solid waste landfill operators to demonstrate the availability of financial resources to conduct closure and post-closure maintenance activities.

In accordance with sections 18283 and 18290 of the CCR, the County has implemented Pledge of Revenue agreements between the County and the California Integrated Waste Management Board (CIWMB) for six active landfills and six closed landfills to demonstrate financial responsibility for post-closure maintenance costs. Waste has determined that the projected net revenues, after current operating costs, from tipping fees during the thirty year period of post-closure care maintenance will, during each year of this period, be greater than the yearly monitoring and post-closure care maintenance costs for each landfill. It is agreed that the amount of these Pledge of Revenue agreements may increase or decrease to match any adjustments to the identified cost estimates which is mutually agreed to by the Waste and the CIWMB. Waste is in compliance with these requirements and investments of $60.4 million are held for these purposes at June 30, 2006 and are classified as Restricted Assets in the Statement of Net Assets. Waste expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure requirements are determined (due to changes in technology or applicable laws or regulations) these costs may need to be covered by charges to future landfill users.

NOTE 11 – OPERATING LEASES

The following is a year by year schedule of future minimum rental payments primarily for facilities leases. The schedule includes an average 4.5% per annum rental increase, principally for the General Fund, required under operating leases entered into by the County that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2006 (in thousands):

Year Ending June 30, 2006		
2007	$	29,717
2008		21,356
2009		27,931
2010		15,547
2011		11,706
2012-2016		51,356
2017-2021		3,955
Total Minimum Payments	$	161,568

Rental expense was $40.1 million principally in the General Fund for the year ended June 30, 2006.

NOTE 12 – SHORT TERM DEBT

Tax and Revenue Anticipation Notes

On July 1, 2005, the County issued $210 million of tax exempt Tax and Revenue Anticipation Notes (TRANs), which were repaid June 30, 2006. The Notes yielded an interest rate of 2.62%. In addition, on July 1, 2005, the County issued $84.8 million Taxable Tax and Revenue Anticipation Notes, maturing on June 30, 2006, and yielding an interest rate of 3.93%. This was to provide needed cash to cover the projected cash-flow deficits of the County's General Fund during the fiscal year July 1 through June 30. Total amount of County TRANs notes issued equals $294.8 million.

Tax-Exempt Commercial Paper Notes

In December 1993, the County adopted the Teeter Plan, an alternative method for the distribution of secured property taxes and other assessments. In order to fulfill the requirements of the plan, the County obtained cash for the "buyout" of delinquent secured property taxes and the annual advance of current unpaid taxes to all entities that elected to participate in the Teeter Plan. The current financing takes place through the sale of Tax-Exempt Commercial Paper Notes (Teeter Notes). During FY 2005-06, the County retired $34.2 million of the principal amount outstanding at June 30, 2006. The County then issued tax-exempt Series B-1 of $34.4 and Series B-2 of $23.9 million in commercial paper notes. The West LB bank provides Letter of Credit (LOC) for the Series B-1 and Citibank for the Series B-2 Teeter Notes. West LB has extended the Series B-1 LOC until 2015 and the Series B-2 LOC will expire on December 7, 2008.

Short-term debt activity for the year ended June 30, 2006, was as follows (in thousands):

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
FY 2005-06 TRANs	$ 210,000	$ 294,845	$ (504,845)	$ -
Teeter Notes	34,226	58,394	(34,226)	58,394
Total	$ 244,226	$ 353,239	$ (539,071)	$ 58,394

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of capital lease obligations, bonds and notes, and other liabilities which are payable from the General, Debt Service, Enterprise and Internal Service Funds. The calculated legal debt limit for the County is $2.1 billion.

Capital Leases

Capital leases for governmental funds are recorded both as capital expenditures and as other financing source at inception in the fund financial statements, with the liability and the asset recorded in the government-wide statement of net assets. Capital leases are secured by a pledge of the leased equipment.

See note 9 (Capital Assets) for Assets under Capital Leases for related disclosure information by major asset class.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2006 (in thousands):

Year Ending June 30, 2006	Governmental Activities	Business-type Activities
2007	$ 20,824	$ 3,452
2008	15,493	3,258
2009	11,622	2,910
2010	9,276	2,606
2011	7,061	2,057
2012-2016	19,740	2,682
2017-2021	7,424	-
2022-2026	3,441	-
2027-2031	7,784	-
Total minimum payments	102,665	16,965
Less amount representing interest	(18,836)	(1,972)
Present value of net minimum lease payments	$ 83,829	$ 14,993

The statement of net assets includes the Palm Desert Financing Authority capital lease of $ 6.2 million for the construction of the Blythe County Administrative Center.

Governmental Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
Certificates of Participation:					
CORAL					
1985 Certificate:	12/01/06 –12/01/15	Variable	$4,400 -$15,100	$ 169,400	$ 94,900
Serial Certificates				169,400	94,900

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
Certificates of Participation (Continued):					
CORAL					
2005A - Capital Improvement & Family Law Court Refunding					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	$275 - $2,160	$ 28,495	$ 28,220
Term Certificates	11/01/26 – 11/01/33	5.00%	$9,905	9,905	9,905
Term Certificates	11/01/34 – 11/01/36	5.00%	$13,265	13,265	13,265
2005-A Family Law				51,665	51,390
CORAL					
2005B - Historic Courthouse Refunding project					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	$325 - $1,740	18,835	18,510
Term Certificates	11/01/26 – 11/01/27	5.00%	$3,775	3,775	3,775
2005-B Historic Courthouse				22,610	22,285
CORAL					
1997 Lease Refunding:					
Serial Certificate	11/01/06 – 11/01/12	4.25% - 5.00%	$2,385 - $1,830	43,560	11,155
Term Certificate	11/01/13 – 11/01/17	5.13%	$1,310 - $1,595	7,250	7,250
Term Certificate	11/01/18 – 11/01/21	5.13%	$1,680 - $1,955	7,260	7,260
1997 Lease Refunding				58,070	25,665
CORAL					
1998 Larson Justice Center:					
Serial Certificate	12/01/06 – 12/01/12	3.70% - 4.75%	$1,065 - $1,550	18,185	9,520
Term Certificate	12/01/13 – 12/01/18	5.15%	$1,625 - $2,075	11,055	11,055
Term Certificate	12/01/19 – 12/01/21	5.17%	$2,175 - $2,400	6,860	6,860
1998 Larson Justice Center				36,100	27,435
CORAL					
2001 CAC Annex:					
Serial Certificate	11/01/06 – 11/01/26	5.00% - 5.13%	$616 - $1,880	27,120	25,200
Term Certificate	11/01/27 – 11/01/30	5.13%	$8,540	8,540	8,540
Term Certificate	11/1/31	5.75%	$2,415	2,415	2,415
2001 CAC Annex				38,075	36,155
CORAL					
2006 Series A - Cap Imp Project					
Serial Certificate	11/01/08 – 11/01/26	3.75% - 5.13%	$585 - $1,235	16,425	16,425
Term Certificate	11/01/27 – 11/01/31	4.75%	$1,295 - $1,560	7,130	7,130
Term Certificate	11/01/32 – 11/01/35	5.00%	$1,635 - $1,895	7,050	7,050
Term Certificate	11/01/36 – 11/01/37	4.63%	$1,990 - $2,080	4,070	4,070
2006 A- Cap Improv Proj				$ 34,675	$ 34,675

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
Certificates of Participation (Continued):					
CORAL					
2003A -Historic Court Project					
Serial Certificate	11/01/06 – 11/01/18	3.00% - 4.63%	\$260 - \$400	\$ 4,125	\$ 4,125
Term Certificate	11/01/19 – 11/01/23	5.00%	\$420 - \$510	2,320	2,320
Term Certificate	11/01/24 – 11/01/28	5.00%	\$535 - \$650	2,955	2,955
Term Certificate	11/01/29 – 11/01/33	5.13%	\$720 - \$835	3,790	3,790
2003A-Historic Court Project				13,190	13,190
CORAL					
2003B –Capital Facilities Refunding					
Serial Certificate	11/01/06 – 11/01/11	2.00% - 4.20%	\$300 - \$900	8,685	7,060
2003B- Capital Facilities				8,685	7,060
CORAL					
1990 Monterey Ave Project					
Serial Certificate	11/01/06 – 11/01/20	9.00%	\$200 - \$800	8,800	7,000
Monterey Ave				8,800	7,000
Court Financing Corporation					
Bankruptcy Courthouse Acquisition Project	11/01/05– 11/01/27	7.50%	\$230 - \$1,420	16,120	14,195
Term Certificate				16,120	14,195
District Court Financing					
U.S. District Court Project					
(Net of capital appreciation of \$5,035)	12/15/15 – 06/15/20	7.59%	\$640 - \$844	2,165	2,165
Term /Series 1999	6/15/15	1.93%	Variable	17,635	11,591
Term /Series 2002	6/15/20	3.00%	Variable	925	780
Term certificate				20,725	14,536
Total Certificates of Participation				**\$ 478,115**	**\$ 348,486**
Bonds Payable:					
CORAL					
2000 Southwest Justice Center:					
Term Certificate	11/01/05 – 11/01/13	4.88% - 5.40%	\$1,445 - \$2,240	\$ 17,945	\$ 14,990
Term Certificate	11/01/05 – 11/01/32	5.20%	\$2,400 - \$6,200	76,300	76,300
Southwest Justice Center				\$ 94,245	\$ 91,290

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
Bonds Payable(Continued):					
CORAL (Sheriff Department)					
1997 B & C (Hospital):					
Term Bonds (Series C)	6/1/19	5.81%	$1,733	$ 1,733	$ 1,733
Bonds Payable				1,733	1,733
RDA					
2005 Tax Alloc Revenue	10/01/06 – 10/01/37	4.50% - 5.00%	$1,995 - $6,490	144,075	144,075
Bonds Payable				144,075	144,075
RDA					
2001 Tax Allocation Bonds	10/01/05 – 10/01/35	3.55% - 5.25%	$830 - $6,680	90,025	89,195
Bonds Payable				90,025	89,195
RDA					
2004 A_Tax Alloc Housing	10/01/05 – 10/01/37	4.75% - 5.00%	$4,700 - $16,015	38,225	38,225
Bonds Payable				38,225	38,225
RDA					
2004 A-T_Tax Alloc Housing	10/01/05 – 10/01/28	2.90% - 4.87%	$1,800 - $7,955	37,000	35,200
Bonds Payable				37,000	35,200
RDA					
2005 Tax Allocation Housing/ Refunding	10/01/05 – 10/01/33	3.00% - 4.50%	$365 - $4,120	18,245	17,880
Bonds Payable				18,245	17,880
Taxable Pension Obligation					
Pension Oblig.Bonds (Series 2005-A) PERS contract	8/15/05 – 8/15/35	4.91%	$3,155 - $5,530	400,000	396,845
Bonds Payable				400,000	396,845
Total Bonds Payable				**$ 823,548**	**$ 814,443**
Loans Payable:					
RDA					
1998 Loans Payable	10/01/05 – 10/01/33	3.50% - 7.00%	$695 - $11,135	$ 68,296	$ 11,595
2000 Loans Payable	01/01/05 – 01/01/15	3.50% - 7.00%	$56 - $956	1,329	1,708
2004 Loans Payable (TAB)	10/01/05 – 01/01/37	2.50% - 5.00%	$2,705 - $40,300	102,785	100,080
Total Loans Payable				**172,410**	**113,383**
Total Governmental Activities				**$ 1,474,073**	**$ 1,276,312**

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Business-Type Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
Bonds Payable:					
Regional Medical Center					
1993 A & B (Hospital):					
Term Bonds (Series A)	06/01/06 – 06/01/12	5.90% - 6.50%	$7,050 - $13,870	$ 81,135	$ 39,125
Term Bonds (Series B)	06/01/13 – 06/01/14	5.41%	$7,050 - $7,475	14,525	14,525
Bond Discount				-	(26)
Loss on Defeasance (net)				-	(2,931)
1993 A & B – bonds				95,660	50,693
Regional Medical Center					
1997A (Hospital): Serial Capital Capital Apprec Bonds (net of future cap apprec of 104,487)	06/01/13 – 06/01/26	5.70% - 6.01%	$3,034 - $3,445	41,170	41,170
1997A RCRMC bonds				41,170	41,170
Regional Medical Center					
Serial Bonds (Series B)	06/01/05 – 06/01/19	4.10% - 5.50%	$315 - $455	4,785	2,775
Term Bonds (Series B)	06/01/05 – 06/01/19	5.00% - 5.70%	$475 -$11,475	63,935	63,935
Term Bonds (Series C)	6/1/2019	5.81%	$3,265	3,265	3,265
Less: Sheriff's Part (Series C)				(1,733)	(1,733)
Bond Discount				-	(21)
Loss on Defeasance (net)				-	(2,439)
1997 B & C (Hospital)				70,252	65,782
Regional Medical Center					
2003 A & B (Hospital):					
Term Bonds (Series A)	06/01/05 – 06/01/09	2.50% - 5.00%	$ 9,415 -$11,030	56,140	27,780
Term Bonds (Series B)	06/01/05 – 06/01/07	3.35%	$4,040	4,040	4,040
Bond Premium				-	894
Loss on Defeasance (net)				-	(199)
2003 A & B – bonds				60,180	32,515
Housing Authority					
1998 Series A:					
Term Bonds	12/01/05-12/01/07	6.25%	$60 - $90	780	270
Term Bonds	12/01/08-12/01/18	6.85%	$100 - $200	1,625	1,545
Deferred Charges					(833)
Term Bonds				2,405	982
Total Bonds Payable				**269,667**	**191,142**
Total Business-type Activities				**$ 269,667**	**$ 191,142**

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2006, annual debt service requirements of governmental activities to maturity are as follows (in thousands):

Governmental	Loans Payable		Certificates of Participation	
Year ending June 30, 2006:	Principal	Interest	Principal	Interest
2007	$ 1,351	$ 5,647	$ 12,695	$ 23,386
2008	1,393	5,587	14,057	22,613
2009	1,449	5,518	15,900	21,442
2010	1,522	5,445	17,122	20,145
2011	1,600	5,387	17,849	18,716
2012-2016	9,136	25,653	112,218	66,768
2017-2021	11,607	22,825	56,416	33,830
2022-2026	14,035	19,405	37,905	20,984
2027-2031	17,950	15,362	34,335	11,717
2032-2036	25,320	9,912	23,430	4,336
2037-2041	28,020	719	6,559	253
Total	$ 113,383	$ 121,460	$ 348,486	$ 244,190

Governmental	Bonds Payable	
Year ending June 30, 2006:	Principal	Interest
2007	$ 10,165	$ 39,475
2008	11,680	38,741
2009	13,040	38,215
2010	14,385	33,354
2011	29,540	64,261
2012-2016	121,730	176,276
2017-2021	172,518	137,619
2022-2026	202,775	88,454
2027-2031	126,545	48,299
2032-2036	99,395	15,006
2037-2041	12,670	958
Total	$ 814,443	$ 680,659

As of June 30, 2006, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Business-type	Bonds Payable	
Year ending June 30, 2006:	Principal	Interest
2007	$ 10,620	$ 12,572
2008	11,060	12,397
2009	11,515	12,222
2010	12,735	11,982
2011	13,555	11,469
2012-2016	63,669	49,088
2017-2021	54,065	35,058
2022-2026	19,478	15,190
Total Requirements	196,697	159,978
Bond Premium, net	894	-
Bond Discount	(47)	-
Deferred	(833)	-
Loss on Defeasance (net)	(5,569)	-
Total	$ 191,142	$ 159,978

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2006 (in thousands):

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Governmental Activities:				
Certificates of Participation:				
Court Financing (US District Court Project)	$ 1,231	$ 264	$ -	$ 1,495
Total governmental-type activities	$ 1,231	$ 264	$ -	$ 1,495
Business-type Activities:				
Lease Revenue Bonds:				
Regional Medical Center (1997A Hosp)	$ 25,983	$ 4,048	$ -	$ 30,031
Total business-type activities	$ 25,983	$ 4,048	$ -	$ 30,031

The accreted interest payable balances at June 30, 2006 represent accreted interest on the U.S. District Court Project and the 1997 A Hospital Serial Capital Appreciation Bonds. The original issues were $2.2 million for the U.S. District Court Project and $41.2 million for the 1997 A Hospital Serial Capital Appreciation Bonds. The total accreted value on the bonds and certificates upon maturity will be $7.2 million for the U.S. District Court Project, and $171.6 million for the 1997 A Hospital Serial Capital Appreciation Bonds.

The increases of $264 thousand and $4 million, respectively, represent current year's accretion. Accumulation accretion at June 30, 2006 is $30 million. The U.S. District Court Financing accounts for the remainder of $1.5 million. The un- accreted balances at June 30, 2006 are $145.7 million for the 1997-A hospital (RCRMC) project and $5 million for the U.S. District Court.

Bonds, Certificates of Participation/ Refunding

During fiscal-year 2005-2006, CORAL issued $34.7 million 2006-Certificates of Participation, Series A (2006 A Capital Improvements Projects). The COPs carried an interest rate of 4.0%. The 2006 Series A were issued to provide funding for certain improvements and construction of capital facilities of the County and to fund capitalized interest costs, fund a reserve fund and pay costs of issuance.

Interest on the 2006 Series A Certificates of Participation (COPs) is payable initially November 1, 2008, and semi-annually thereafter on November 1 and May 1 of each year until November 1, 2037. CORAL's COPs will be repaid through lease agreements with the County that are structured to meet principal and interest requirements when due.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

In addition, during the current fiscal year, the County of Riverside Board of Supervisors approved the dissolution of the Desert Facilities Corporation, and authorized CORAL to assume the outstanding obligations of the Corporation, including $7 million of the outstanding Certificates and $125.1 thousand of restricted cash and cash equivalents. The Corporation was established to finance the construction of a courthouse project for use by the County. In 1990, the Corporation issued $8.8 million of Certificates of Participation to finance the Monterey Avenue Improvement Project. The 1990 Monterey Avenue Project was issued as a series of seven-day variable rate Certificates of Participation. The payments on the bonds are secured by base-rental lease payments from the County of Riverside. The bonds are not the obligation of the County. The base-rental payments are solely available to the extent that the County prepares an annual appropriation for such amounts. The County has covenanted that annual appropriations will be made.

During fiscal year ended June 30, 2006, the Redevelopment Agency issued the 2006 Tax Allocation Revenue Bonds for financing projects in the Agency's five redevelopment project areas. The Redevelopment Agency issued five separate series of bonds and re-sold those bonds to the Authority, to be pooled and sold pursuant to the Marks Roos Act. The Bonds are limited obligations of the Riverside County Public Financing Authority.

The Agency entered into loan agreements, per the above, with the Riverside County Public Financing Authority for $144 million to assist the Agency in purchasing bonds to refinance long-term debt that was issued in 1997, and for project improvements in the five project areas. The balance outstanding as of June 30, 2006, is $ 144 million.

General obligation bonds are not secured by collateral. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds. Not-for-profit corporation certificates of participation and revenue bonds are secured by certain facilities or annual base rental lease payments payable by various County departments for use of the facilities constructed or purchased from the bond proceeds.

Defeasance of Debt

In August 2005, the County Redevelopment Agency received $144 million in Loans Payable from the Riverside County Public Financing Authority that provide a portion of the proceeds which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 loan payable for $33.7 million. As a result, the refunding portion of the 1997 loan payable is considered to be defeased and the liability has been removed from the government activities column of the Statement of Net Assets. The advanced refunding resulted in a deferred loss-on-refunding (difference between the reacquisition amount and the net carrying amount of the old debt) of $674 thousand. This advanced refunding was undertaken to reduce total debt service payments over the next 28 years by $8.4 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2 million.

In April 2005, CORAL issued $51.6 million of Certificates of Participation, 2005 Series A (Capital Improvement and Family Law Court Refunding). Eleven million of the proceeds from the sale of the certificates were used to advance refund $10.7 million of the 1997 Family Law Court Certificates of Participation. The advance refunding resulted in a deferred loss-on-refunding (difference between the reacquisition price and the net carrying amount of the old debt) of approximately $634 thousand. CORAL completed the advanced refunding and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $351 thousand. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2006, was $10.5 million.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

In April 2005, CORAL issued $22.6 million of Certificates of Participation, 2005 Series B (Historic Courthouse Refunding). The proceeds from the sale of the certificates were used to advance refund $21.2 million of the 1997 Historic Courthouse Certificates of Participation. The advance refunding resulted in a deferred loss-on-refunding (difference between the reacquisition price and the net carrying amount of the old debt) of approximately $1.6 million. CORAL completed the advanced refunding and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $670 thousand. Accordingly, the refunded certificates have been eliminated and the advance refunding certificates have been included in the financial statements. The amount of the defeased debt outstanding at June 30, 2006, was $19.3 million.

Single Family and Multi-Family Mortgage Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-family Mortgage Revenue Bonds are issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income.

A total of $ 69.4 million of Mortgage Revenue Bonds has been issued and $62.9 million is outstanding as of June 30, 2006. These bonds do not constitute an indebtedness of the County. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans and certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures. In the opinion of the County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the basic financial statements.

Special Assessment Bonds

Various special districts in the County reporting entity have issued special assessment bonds, totaling $205.4 million at June 30, 2006, to provide financing or improvements benefiting certain property owners. Special assessment bonds consist of Community Facilities District Bonds and Assessment District Bonds. The County, including its special districts, is not liable for the payment of principal or interest on the bonds, which are obligations solely of the benefited property owners. Certain debt service transactions relating to certain special assessment bonds are accounted for in the Agency Funds.

The County is not obligated and does not expect to advance any available funds from the County General Fund to the Community Facilities Districts or the Assessment Districts for any current or future delinquent debt service obligations. The County Special Districts continue to use all means available to bring current any delinquent special assessment taxes, including workouts, settlement agreements, and foreclosure actions when necessary.

The Riverside County Flood Control and Water Conservation District (Flood Control) has issued special assessment bonds, totaling $5.8 million as of June 30, 2006, for the construction of flood control facilities. The bonds are to be repaid through special assessment revenue and are not considered obligations of Flood Control. In accordance with bond covenants, Flood Control has established a reserve for potential delinquencies. If a delinquency occurs in the payment of any assessment installment, Flood Control has the duty to transfer the amount of such delinquent installment from the Reserve Fund into the Redemption Fund assessment installment. Flood Control's liability to advance funds for bond redemption in the event of delinquent assessment installments is limited to the reserves established.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

State Appellate Court Financing

In November 1997, the Public Finance Authority of the County of Riverside issued $13.5 million of Lease Revenue Bonds for the State of California Court of Appeal Fourth Appellate District, Division Two Project. The State of California executed a lease coincident with the term of the financing and those lease payments are the sole security for the financing. The State is the ultimate obligor under the terms of the financing and neither the County nor the Authority will have any ongoing payment obligation. The State has committed to indemnify the County in the Lease.

Interest Rate Swap

Objective and Terms: As a means to lower financing costs and to reduce the risks associated with the fluctuation in market interest rates, the County entered into an interest rate swap in connection with the Southwest Justice Center Series 2000 B Leasehold Revenue Bonds in the amount of $76.3 million. The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed-rate of 5.20%. The Bonds and the related swap agreement mature on November 1, 2032, and the swap's notional amount of $76.3 million matches the $76.3 million variable-rate bonds. The swap was effective at the same time the bonds were issued on May 24, 2000.

Starting in fiscal year 2014-15, the notional value of the swap and the principal amount of the associated debt will decline. Under the swap agreement, through June 1, 2003, the County paid Citigroup Financial Products, Inc., (Citigroup) a fixed payment rate of 5.20% and Citigroup paid the County an amount equal to the weighted average variable rate interest payable on the outstanding Revenue Bonds. After June 1, 2003, the County paid the Citigroup (Holding Company) a fixed rate of 5.2% and receives from Citigroup a variable payment (Floating Rate Option) computed on the weighted average rate paid on the Bonds during any calculation period. Conversely, the Bond variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

Fair Value: Because interest rates have increased since the prior year, the swap had a negative fair value of $(13.3 million) as of June 30, 2006. Because of the coupons on the Southwest Justice Center, Series B variable-rate bonds adjust to changing interest rates, the Bonds do not have a corresponding fair value increase. The fair value was the quoted market price from Citigroup at June 30, 2006.

Credit /Basis Risks: The swap counterparty was rated Aa1 by Moody's and AA- by Standard & Poor's as of June 30, 2006. The swap agreement specifies that if the long-term senior unsecured debt rating of Citigroup is withdrawn, suspended or falls below A- (Standard & Poor) or A3 (Moody's), a collateral agreement will be executed within 30 days or the fair value of the swaps will be fully collateralized by the counterparty.

The swap exposes the County to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. As of June 30, 2006, the County's rate was 64% of LIBOR, or 3.4140%, whereas BMA was 3.82%. The synthetic rate on the bonds at June 30, 2006 was 1.7860%.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)
(in thousands):

Fiscal Year Ended June 30, 2006	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2007	$ -	$ 2,605	$ 1,363	$ 3,968
2008	-	2,605	1,363	3,968
2009	-	2,605	1,363	3,968
2010	-	2,605	1,363	3,968
2011	-	2,605	1,363	3,968
2012 - 2016	7,500	12,519	6,549	19,068
2017 - 2021	15,600	10,208	5,340	15,548
2022 - 2026	20,400	7,060	3,693	10,754
2027 - 2031	26,600	2,970	1,554	4,524
2032	6,200	-	-	-
	$ 76,300	$ 45,782	$ 23,950	$ 69,732

Swap Payment and Associated Debt: Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rate remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Termination Risks:
The County always has the right to terminate the swaps. If the swaps are terminated, the variable rate Bonds would no longer carry synthetic fixed-interest rates. Also, if at the time of termination the swaps had negative fair values, the County would be liable to Citigroup for a payment equal to the swaps' fair values.

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2006 (in thousands):

	Balance July 1, 2005	New Additions	Payments / Reclass	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities:					
Debt long-term liabilities:					
Bonds payable	$ 678,028	$ 144,075	$ (7,660)	$ 814,443	$ 10,165
Capital lease obligations	75,845	25,023	(17,039)	83,829	13,188
Certificates of participation	325,572	34,675	(11,761)	348,486	12,695
Loans payable	150,019	-	(36,636)	113,383	1,351
Notes payable	325	-	(325)	-	-
Total debt long-term liabilities	1,229,789	203,773	(73,421)	1,360,141	37,399
Other long-term liabilities:					
Accreted interest payable	1,231	264	-	1,495	-
Compensated absences*	111,983	10,775	(572)	122,186	70,071
Estimated claims liabilities	126,743	51,127	(47,706)	130,164	37,945
Other long-term liability	1,500	-	-	1,500	-
Total other long-term liabilities	241,457	62,166	(48,278)	255,345	108,016
Total governmental activities – long-term liabilities	$ 1,471,246	$ 265,939	$ (121,699)	$ 1,615,486	$ 145,415

Business-type activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Debt long-term liabilities:					
Bonds payable, net of un-amortized discount and losses**	$ 200,555	$ 6,317	$ (15,730)	$ 191,142	$ 10,620
Capital lease (RCRMC)	13,551	4,824	(3,382)	14,993	2,880
Total debt long-term liabilities	214,106	11,141	(19,112)	206,135	13,500
Other long-term liabilities:					
Accreted interest payable	25,983	4,048	-	30,031	-
Accrued closure and post-closure	39,430	13,910	(2,656)	50,684	4,262
Compensated absences*	13,918	1,934	(325)	15,527	8,804
Accrued remediation costs	17,562	308	(1,000)	16,870	1,218
Other long-term liability	616	6,795	(616)	6,795	-
Total other long-term liabilities	97,509	26,995	(4,597)	119,907	14,284
Total business-type activities – long-term liabilities	$ 311,615	$ 38,136	$ (23,709)	$ 326,042	$ 27,784

* Obligations for compensated absences have been paid from the fund associated with the obligation.

** The reduction in bonds payable amount of $15.7 million includes a bond premium of $894 thousand, a bond discount amortization of $47 thousand, deferred charges of $833 thousand and losses on bond defeasance of $5.6 million during FY 2005-06.

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COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 14 – FUND BALANCES

Fund balances that are not available for appropriation or are not considered "expendable available financial resource[s]" are reserved. Unreserved fund balances that have been earmarked by the Board for a specified purpose are considere[d] designated. Such reserved and designated fund balances at June 30, 2006 are as follows (in thousands):

	Major Funds			Total
Reserved:	**General Fund**	**Public Facilties Improvements**	**Redevelopment Capital Projects**	**Major Governmental Funds**
Encumbrances	$ 7,052	$ -	$ 63,780	$ 70,832
Imprest cash	395	1	-	396
Inventories	1,806	-	1,021	2,827
Advances	20	-	-	20
Program operations	90,813	568	-	91,381
Construction	-	222,414	-	222,414
General	350	-	-	350
Land held for resale	-	-	23,590	23,590
Total reserve fund balance	100,436	222,983	88,391	411,810
Unreserved:				
Unreserved, designated:				
Strategic planning	88,557	-	-	88,557
Public safety	18,844	-	-	18,844
Program operations	55,922	-	120,313	176,235
Capital projects and programs	114,510	-	-	114,510
Total unreserved, designated fund balances	277,833	-	120,313	398,146
Total unreserved, undesignated fund balances	68,649	-	-	68,649
Total fund balances	$ 446,918	$ 222,983	$ 208,704	$ 878,605

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2006

NOTE 14 – FUND BALANCES (Continued)

	Nonmajor Funds					
Reserved:	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Encumbrances	$ 15,637	$ -	$ 880	$ 16,517	$ 70,832	$ 87,349
Imprest cash	183	-	-	183	396	579
Inventories	868	-	-	868	2,827	3,695
Notes receivable	14,703	-	-	14,703	-	14,703
Advances	-	-	-	-	20	20
Program operations	5,785	-	-	5,785	91,381	97,166
Construction	243	-	50,964	51,207	222,414	273,621
Receivables	1,354	-	-	1,354	-	1,354
General	51	32,415	24,786	57,252	350	57,602
Debt service	-	47,520	-	47,520	-	47,520
Land held for resale	2,489	-	-	2,489	23,590	26,079
Total reserved fund balances	41,313	79,935	76,630	197,878	411,810	609,688
Unreserved:						
Unreserved, designated:						
Strategic planning	-	-	-	-	88,557	88,557
Public safety	-	-	-	-	18,844	18,844
Program operations	212,407	-	-	212,407	176,235	388,642
Capital projects and programs	-	-	2,056	2,056	114,510	116,566
Total unreserved, designated fund balances	212,407	-	2,056	214,463	398,146	612,609
Total unreserved, undesignated fund balances	109,608	-	-	109,608	68,649	178,257
Total fund balances	$ 363,328	$ 79,935	$ 78,686	$ 521,949	$ 878,605	$ 1,400,554

Net Assets. The government-wide statement of net assets reports $582 million of restricted net assets for governmental activities, of which $218.9 million is restricted by enabling legislation.

See Note 1 for information regarding the reserves for encumbrances and inventories. The general reserve was established under the provisions of Government Code Section 29086 for "dry period" financing, which is that period before the property tax apportionment is received by a fund. The County also issues Tax and Revenue Anticipation Notes to finance the General Fund's "dry period."

NOTE 15 – RISK MANAGEMENT

The County is self-insured for general liability, medical malpractice, and workers' compensation claims. The County records estimated liabilities for general liability, medical malpractice and workers' compensation claims filed or estimated to be filed for incidents that have occurred. Estimated liability accruals include those incidents that are reported as well as an amount for those incidents that occurred but are unreported (i.e., IBNRs) at fiscal year end. The funding of these estimates is based on actuarial experience and projections. The County fully self-insures short-term disability and unemployment insurance. Life insurance and long-term disability programs are fully insured. Depending on the plan, group health, dental, and vision may be either self-insured or fully insured.

The County supplements its self-insurance for general liability, medical malpractice and workers' compensation with catastrophic excess insurance coverage. General liability utilizes a policy providing coverage on a per occurrence basis. Limits under the policy are $15 million, subject to a self-insured retention (SIR) of $1million for each claim. A deductible is a form of self-insured retention. The County also purchases an additional $10 million in excess limits for a total of $25 million in limits for general liability. Medical malpractice utilizes an excess policy providing coverage on claims made. Limits under the malpractice policy are $10 million subject to a self-insured retention of $1.1 million. The general liability policy provides an additional $10 million in excess limits for medical malpractice (excess the medical malpractice programs $10 million policy limit) for a total of $20 million. The maximum limit under the excess workers' compensation, Section A, is $200 million; Section B, employer liability is $5 million per claim. Section A is subject to a $2 million SIR for each accident, employee injury, or disease. Settlements have not exceeded coverage for each of the past three fiscal years

The County's property insurance program provides insurance coverage for all risks subject to a $50 thousand deductible; Flood coverage is subject to a 2% deductible within a 100-year flood zone and $25 thousand outside a 100-year flood zone. The County's property is categorized into four (4) Towers and each Tower provides $600 million in limits. Earthquake (covering scheduled locations equal to or greater than $1 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each Tower of $75million with an additional $125 million excess rooftop limit available to any one Tower. Earthquake is subject to a deductible equal to 5% of replacement cost value subject to a $500 thousand minimum. Boiler and Machinery provides up to $100 million in limits, with various deductibles. The limits in each Tower are shared with other counties on a per event basis. Should a catastrophic event occur and losses exceed the limits, the County would be responsible.

The activities related to such programs are accounted for in Internal Service Funds. Accordingly, estimated liabilities for claims, including loss adjustment expenses, filed or to be filed, for incidents that have occurred through June 30, 2006 are reported in these funds. Where certain funds have an accumulated deficit or insufficient reserves, the County provides funding to reduce the deficit and increase the reserves. If the funding is above the Board of Supervisors approved 70% confidence level an appropriate reduction in funding including a one-time holiday on department charges is granted. Revenues for these Internal Service Funds are primarily provided by other County departments and are intended to cover the self-insured claim payments, insurance premiums, and operating expenses. The revenue is not used to cover catastrophic events and other uninsured liabilities. Cash available in the Risk Management Internal Service Funds at June 30, 2006 plus revenues to be collected during fiscal year 2006-07 are expected to be sufficient to cover all fiscal year 2006-07 payments. The carrying amount of unpaid claim liabilities is $130.1 million. The liabilities are discounted at 5%.

Changes in the balances of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows (in thousands):

	June 30, 2005	June 30, 2006
Unpaid claims, beginning of year	$ 117,258	$ 126,743
Increase (decrease) in provision for insured events of prior years	12,399	(808)
Incurred claims for current year	41,013	51,127
Claim payments	(43,927)	(46,898)
Unpaid claims, end of year	$ 126,743	$ 130,164

NOTE 16 – MEDI-CAL AND MEDICARE PROGRAMS

The Regional Medical Center provides services to patients covered by various reimbursement programs. The principal programs are Medicare, the State of California Medi-Cal, the County Medically Indigent Services Program (MISP), and the County Indigent Adult (IA) program. Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. In addition, net patient service revenue includes a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed at a contractually agreed-upon per discharge rate and outpatient services are reimbursed under a schedule of maximum allowable reimbursement provided by the California Department of Health Services. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Regional Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Regional Medical Center and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between final settlements and amounts accrued in previous years are reflected in net patient service revenue. The fiscal intermediary has audited the Regional Medical Center's Medicare cost reports through June 30, 2003 and through June 30, 2002 for Medi-Cal.

During 1991, legislation (SB855) was enacted by the State of California to provide supplemental Medi-Cal payments to hospitals that serve a disproportionately high percentage of Medi-Cal and other low-income patients. The Regional Medical Center has recorded net patient service revenue of $ 45.6 million from disproportionate Medi-Cal reimbursement under this program for the year ended June 30, 2006. The continuation of government reimbursement programs is contingent upon Federal, State and County government policies.

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS

Under Title I (Section 6500 et seq.) of the Government Code, the County has participated in jointly governed organizations with various entities for a variety of purposes. The board of directors for each of these organizations is composed of one representative of each member organization. The County maintains no majority influence or budgetary control over the following entities and County transactions with these jointly governed organizations are not material to the financial statements. The following jointly governed organizations were not included as either blended or discretely presented component units in these financial statements.

A representation of the jointly governed organizations on which the County served at June 30, 2006 follows:

The CSAC Excess Insurance Authority was formed in October 1979 and has a current membership of 52 California counties. The Authority operates programs for excess workers' compensation, two excess liability programs, two property programs, and medical malpractice. It also provides support services for selected programs such as claims administration, risk management, loss prevention and training, and subsidies for actuarial studies and claims audits.

Coachella Valley Association of Governments was formed in November 1973 with the cities of Coachella, Desert Hot Springs, Indian Wells, Indio, Palm Springs and Rancho Mirage. The purpose of the Association is to conduct studies and projects designed to improve and coordinate the common governmental responsibilities and services on an area-wide and regional basis.

Western Riverside Council of Governments was formed in November 1989 with the cities of Banning, Beaumont, Calimesa, Canyon Lake, Corona, Hemet, Lake Elsinore, Moreno Valley, Murrieta, Norco, Perris, Riverside, San Jacinto and Temecula for the purpose of serving as a forum for consideration, study and recommendation on area-wide and regional problems.

Riverside County Habitat Conservation Agency (RCHCA) was formed in July 1990. The RCHCA is a Joint Powers Agreement Agency comprised of the cities of Corona, Hemet, Lake Elsinore, Moreno Valley, Murrieta, Perris, Riverside, Temecula, and the County of Riverside for the purpose of planning, acquiring, administering, operating and maintaining land and facilities for ecosystem conservation and habitat reserves for the Stephen's Kangaroo Rat and other endangered species under Article 1, Chapter 5, Division 7, Title 1 of the Government Code.

Van Horn Regional Treatment Facility was organized in January 1991 with Los Angeles, San Diego, San Bernardino and Orange Counties for the purpose of constructing and operating a treatment center for emotionally disturbed minors. The Facility's Board of Directors consists of the Chief Probation Officer and the Director of Mental Health for each county.

Riverside County Abandoned Vehicle Abatement Authority was formed in June 1993 with those cities within the County that have elected to create and participate in the Authority, pursuant to Vehicle Code Section 22710. The purpose of the Authority is to implement a program and plan for the abatement of abandoned vehicles.

The March Joint Powers Commission was formed in August 1993 with the cities of Moreno Valley, Perris and Riverside to formulate and implement plans for the use and reuse of March Air Force Base.

The Salton Sea Authority was formed in August 1993 with Imperial County, Imperial Irrigation District and Coachella Valley Water District to direct and coordinate actions relating to improvement of water quality and stabilization of water elevation and to enhance recreational and economic development potential of the Salton Sea and other beneficial uses.

Coachella Valley Regional Airport Authority was formed in April 1994 with the cities of Coachella, Indian Wells, Indio, La Quinta and Palm Desert for the purpose of acting as a planning commission for the continued growth and development of Thermal Airport and the surrounding area.

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Inland Empire Health Plan was formed with the County of San Bernardino in June 1994 to be the administrative body and governing board to form and develop a managed health care system for Medi-Cal recipients in the two counties through the Local Initiative.

Palm Springs Visitors and Convention Bureau was formed in December 1995 with those member cities located in the Coachella Valley area of the County. The purpose of the Authority is to encourage and promote all aspects of the hospitality, convention and tourism industry in the Coachella Valley.

Western Riverside County Regional Conservation Authority / Multi-Species Habitat Conservation Plan was formed in January 2004 with the responsibility of issuing the permits required to implement the Multi-Species Habitat Conservation Plan, which will ultimately create a 500,000-acre reserve system in the County. The conservation plan's proposed reserve system protects habitat for 146 variety of specie.

Coachella Valley Conservation Commission (CVCC) was formed in October 2005. The CVCC is a Joint Powers Agreement Agency comprised of the cities of Coachella, Cathedral City, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage, Riverside, and the Coachella Valley Water District as well as the Imperial Irrigation District. The purpose of the CVCC was to implement the Coachella Valley Multiple Species Habitat Conservation Plan (CVMSHCP). The CVMSHCP goal is to enhance and maintain biological diversity and ecosystem processes while allowing future economic growth.

NOTE 18 – RETIREMENT PLAN

Plan Description

The County, Flood Control and Water Conservation District (Flood Control), the Regional Park and Open-Space District (Park District) and Waste Management contribute to the California Public Employees Retirement System (CalPERS). Under GASB 27, County Miscellaneous and Safety, and Flood Control are considered single employer defined benefit pension plans, while Park District and Waste Management are considered multiple employer defined benefit pension plans because of its pooling configuration. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. State statutes within the Public Employees' Retirement Law have established a menu of benefit provisions as well as other requirements. The County selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Separate financial reports for the various County plans within CalPERS are not available. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in CalPERS are required to contribute 8% (9% for safety employees) of their annual covered salary. The County contributes 1% of the total 8% contribution required of Miscellaneous member County employees hired prior to July 11, 2002, on their behalf and for their account. The County makes the full contribution required of County employees hired prior to January 9, 1992, on their behalf and for their account. Miscellaneous member (non-prosecution unit) employees hired after the above dates make their own contributions for the first five years. Prior to October 25, 2005, Miscellaneous prosecution unit member employees hired on or after September 3, 1992, made their own contributions for the first year. Effective October 25, 2005, the County makes the full contribution required of all Miscellaneous prosecution unit member employees. With some exceptions, safety member employees hired after June 25, 1992, make their own contributions for the first three years. For certain bargaining units, the County makes the contribution required of the employees on their behalf, regardless of hire date. The County, Flood Control, Park District and Waste Management are required to contribute the actuarially determined remaining amounts necessary to fund the benefit for its members. The actuarial methods

NOTE 18 – RETIREMENT PLAN (Continued)

and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2005-06, the contribution rates were:

	County	Flood Control	Park District	Waste Management
Miscellaneous	11.751%	14.296%	20.502%	19.951%
Safety	17.013%	-	-	-

State statute establishes the contribution requirements of the plan member. The employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2005-06, the annual pension costs for CalPERS is equal to the employer's required and actual contributions as noted below (in thousands):

	County	Flood Control	Park District	Waste Management
Miscellaneous	$ 75,534	$ 1,577	$ 757	$ 656
Safety	$ 29,176	$ -	$ -	$ -

The required contribution for fiscal year 2005-06 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and; (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of CalPERS assets was increased from 100% to 110% of the market value of investments. CalPERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payrolls on a closed basis. CalPERS has notified the County that the actuarial assumptions regarding the inflation rates will be revised for the next evaluation period. The remaining amortization periods in years at June 30, 2006 are:

	County	Flood Control	Parks District	Waste Management
Miscellaneous	19	18	17	18
Safety	22	-	-	-

Riverside County – Miscellaneous

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2004	$ 52,100	100.00%	$ -
June 30, 2005	$ 79,036	493.70%	$ (311,162)
June 30, 2006	$ 75,534	90.73%	$ (304,161)

NOTE 18 – RETIREMENT PLAN (Continued)

Riverside County - Safety

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2004	$ 26,076	100.00%	$ -
June 30, 2005	$ 36,430	335.28%	$ (85,713)
June 30, 2006	$ 29,176	93.39%	$ (83,784)

Flood Control and Water Conservation District

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2004	$ -	-	$ -
June 30, 2005	$ 1,192	100.00%	$ -
June 30, 2006	$ 1,577	100.00%	$ -

Regional Park and Open-Space District

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2004	$ 302	100.00%	$ -
June 30, 2005	$ 2,238	100.00%	$ -
June 30, 2006	$ 757	100.00%	$ -

Waste Management Department

Three-Year Trend Information
(Dollar Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2004	$ 824	100.00%	$ -
June 30, 2005	$ 848	100.00%	$ (4,120)
June 30, 2006	$ 656	100.00%	$ (3,686)

NOTE 19 – DEFINED BENEFIT PENSION PLAN

County of Riverside

The County provides a Defined Benefit Pension Plan for part-time and temporary employees who are not eligible for social security or CalPERS retirement benefits through the County. This single-employer pension plan is subject to IRC Section 401(a), is self-funded and self-administered. Contributions made to the Plan are deposited with the County Treasurer, who invests the contributions. A participant is 100% vested immediately. Participants in the plan are required to contribute 3.75% of their compensation to the plan. The County's current contribution level is 5.03%. The contribution level is based on the actuarial valuation in process. A separate audited GAAP-basis pension plan report is not available for this plan.

Annual Pension Cost

Three-Year Trend Information
(Dollar Amounts in Thousands)

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 813	100%	$ -
2005	$ 616	100%	$ -
2006	$ 633	100%	$ -

As of June 30, 2006, the Fund had a cash balance of $10.2 million.

Housing Authority

On May 22, 2001, the County Board of Supervisors approved and authorized action to transition employees of the Housing Authority (the Authority) to County employees retroactive to May 3, 2001. These employees became subject to the provisions of the CalPERS retirement plan with no carryover vesting from the prior retirement plan. Employees will be 100% vested in the CalPERS retirement plan after 5 years of uninterrupted service.

Before the Authority employees became County employees, the Authority fully funded a defined contribution pension plan on behalf of qualified employees. During the current fiscal year, the Authority participated in the CalPERS plan through the County of Riverside and was not required and did not make any contributions to the prior plan. In August 2002 the prior pension plan was formally terminated and plan assets were distributed to the entitled employees in accordance with written instructions as specified by each current or former employee.

The following information details plan activity during the current fiscal year (in thousands):

Total Authority Gross Salaries:	$	5,971
Total Authority Regular Salaries Subject to CalPERS:	$	4,460
Total Authority Contributions Required and Paid:	$	988

NOTE 20 – POST-RETIREMENT BENEFITS

In addition to providing retirement benefits, the County provides certain post-retirement health insurance premium payments to qualifying retired employees and their eligible dependents or survivors pursuant to collective bargaining agreements and Board resolutions. Employees with a minimum service of five years who are at least 50 years of age at retirement qualify to receive the post-retirement benefits. Approximately 1,877 retirees meet these requirements and are covered under the eligibility requirements. CalPERS is responsible for administering the benefits for retirees in certain employee bargaining units. Waste Management, Flood, and Park Districts have not been a part of CalPERS-administered Health Plans since December 31, 2002. In addition, most of the County's employee bargaining units have withdrawn from the CalPERS-administered health plans and are now enrolled with County-administered health plans.

The contributions for retirees and beneficiaries are funded on a pay-as-you-go basis, which are allocated among the operating departments based on the proportionate number of current employees. For the year ended June 30, 2006, CalPERS-administered health plan expenditures amounted to approximately $326,000 and County-administered health plan expenditures amounted to approximately $906,000, respectively.

The County of Riverside did obtain an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB 45 standards as of January 1, 2006. Based on the combination of plans and contribution levels that the County offers, the present value of future benefits, assuming a 4.5% interest rate, was estimated to be $237 million, while the annual normal cost is $10 million. If the accrued actuarial liability of $142 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would be $16 million. Taking the implicit rate subsidy into account, the County's actual payment obligation would be approximately 30% of the amounts above. Approximately 70% of the liability is attributable to the "implicit subsidy," arising from the combination of "pre-65" retirees with active employees for rate purposes.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

Lawsuits and Other Claims

The County has been named as a defendant in various lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable financial loss to the County, such loss has been accrued in the accompanying basic financial statements. In the opinion of management, the ultimate outcome of these claims will not materially affect the operations of the County.

Federal Grant Revenue

Compliance examinations for the fiscal year ended June 30, 2005, identified certain items of noncompliance with Federal grants and regulations. The total amount of expenditures that could be disallowed by the granting agencies cannot be determined at this time; however county management does not expect such amounts, if any, to be material to the basic financial statements.

The fiscal year 2005-06 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 30, 2007.

Commitments

At June 30, 2006, the County had various non-cancelable contracts and construction-in-progress with outside contractors. These contracts were financed through either the General Fund or Capital Projects funds. $177.5 million will be payable upon future performance under the contracts.

NOTE 21 – COMMITMENTS AND CONTINGENCIES (Continued)

Landfill Construction and Consulting Contracts

The Waste Management Department (Waste) entered into various construction and consulting contracts to facilitate its landfill operations and is in the process of installing landfill liners at Lamb Canyon in accordance with State and Federal laws and regulations. Waste expects to complete the installation of several landfill liners over the next five years and estimates additional future costs to be $ 22.7 million. These additional costs will be capitalized as the costs are incurred.

Remediation Contingencies

Waste is presently aware of groundwater contamination at 9 of its landfills, 6 of which are closed. Waste is also aware of air/gas contamination at 17 landfills, 11 of which are closed. Based on engineering studies, Waste estimates the present value of the total costs of corrective action for foreseeable contaminate releases at $16.9 million. At June 30, 2006, Waste has accrued $16.9 million for the estimated costs related to the remediation of these landfills. Remediation expense for fiscal year 2006 results from prior estimates, current estimates, and current actual expenses.

Waste has established a remediation restricted cash fund and 17 remediation restricted cash escrow funds to set aside funds for future remediation costs as they are require to be performed. Investments of $16.9 million and $16.1 million are held for these purposes at June 30, 2006 and 2005, respectively, and are classified as restricted cash and investments in the accompanying statements of net assets.

NOTE 22 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes (TRANS) and CalPERS Pre-payment Note

On July 1, 2006, the County as a participant in the California Statewide Communities Development Authority Pool issued $235 million of Tax and Revenue Anticipation Notes in the form of Series A-4 Bonds due June 29, 2007. The stated interest rate for the A-4 Bonds is set at 4.5% per annum with a yield of 3.56%.

The issuance is divided into two entities: $167 million for the Tax and Revenue Anticipation Notes and the other $68 million to pre-pay a portion of the County's CalPERS contribution for 2006-07. Between the prepayment discount of 3.66%, and earnings on cash flow the County expects to net $1.9 million in cost savings.

In accordance with California law, the TRANS Bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2006-07 and legally available for payment thereof. Proceeds for the Bonds will be used for fiscal year 2006-07 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

NOTE 22 – SUBSEQUENT EVENTS (Continued)

Educational Revenue Augmentation Fund (ERAF)

To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to "educational revenue augmentation funds" (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools. For 2006-2007, the State has directed the following ERAF tax shifts: First, a transfer of $298.5 million to the Vehicle License Fee Property Tax Compensation Fund for distribution of 50% in January and 50% in May. Secondly, the State has directed a transfer of $80.7 million to the Sales and Use Tax Compensation Fund for distribution of 50% in January and 50% in May. The total ERAF transfer for 2006-2007 is $379.2 million.

Trial Court Facilities Act of 2002 (SB 1732)

The bill provides for the transfer of the responsibility of a county to provide necessary and suitable court facilities by authorizing the transfer of that responsibility from the county to the Judicial Council pursuant to an agreement to be negotiated between the county and the Judicial Council, as specified, between July 1, 2003, and June 30, 2007.

Transfer of responsibility may occur not earlier than July 1, 2004, and not later than June 30, 2007. The bill further imposes a state-mandated local program by expanding various duties of a county with respect to court facilities. This bill would establish the Court Facilities Trust Fund to be financed by specified payments by each county. In general, the County is held responsible for maintenance-of-effort contributions.

Responsibility for the Larson Justice Center, Moreno Valley Court, and Family Law Court was transferred to the State in October 2004, October 2005, and December 2006 respectively. Twenty (20) buildings are subject to the Trial Court Facilities Act of 2002.

Facility	Date Transferred to State	Annual Payment Obligation
Larson Justice Center	October, 2004	$ 559,761
Moreno Valley Court	October, 2005	251,250
Family Law Court	December, 2006	269,190
Annual Payment Obligation		$ 1,080,201

SB1732 provides an exception to such transfers for historic facilities. In November 2006, the Board approved a memorandum of understanding between the County and the Judicial Council of California, stating that the County will retain title, responsibility for funding and operation of the Historic Courthouse, and no payments are required to be paid to the state for this facility as long as it remains a working court facility.

The Effects of the Economy on CalPERS

Based on past negative performance of the CalPERS fund, CalPERS has estimated that the County's Miscellaneous and Safety contribution rates for fiscal year 2006-07 will be 11.916% and 18.031%, respectively. Fiscal year 2007-08 contribution rates for Miscellaneous and Safety are estimated at 12.051% and 18.625%, respectively. They will be accounted for in fiscal year 2006-07 and future budget years.

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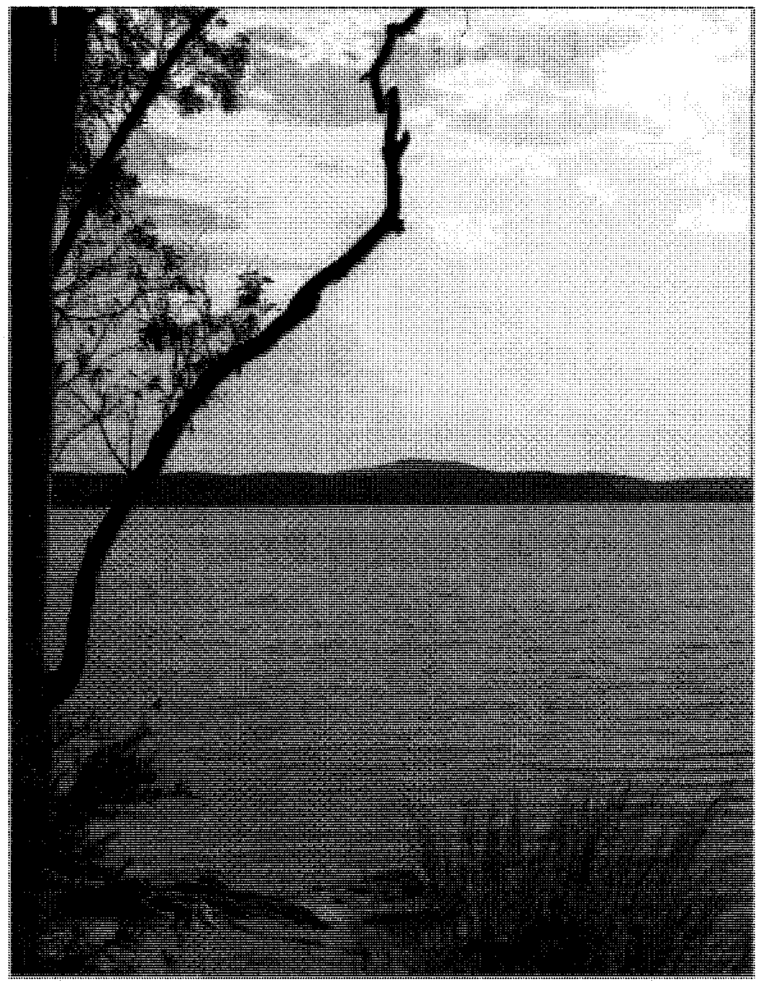
REQUIRED SUPPLEMENTARY INFORMATION



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COUNTY OF RIVERSIDE
Required Supplementary Information
June 30, 2006

SCHEDULES OF FUNDING PROGRESS

The tables below show a 3–year analysis of the Actuarial Value of Assets as a ratio of the Actuarial Accrued Liability (AAL) and the Asset Value in Excess (Deficit) of AAL as a percentage of Annual Covered Payroll (dollars in thousands).

Riverside County – Miscellaneous

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2003	$ 1,669,502	$ 1,998,882	$ (329,380)	.835	$ 542,056	(60.80%)
June 30, 2004	$ 1,834,161	$ 2,231,624	$ (397,463)	.822	$ 571,677	(69.50%)
June 30, 2005	$ 2,364,565	$ 2,471,523	$ (106,958)	.957	$ 592,531	(18.10%)

Riverside County - Safety

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2003	$ 814,074	$ 907,018	$ (92,944)	.898	$ 147,519	(63.00%)
June 30, 2004	$ 887,401	$ 1,021,085	$ (133,684)	.869	$ 161,598	(82.70%)
June 30, 2005	$ 1,069,038	$ 1,127,240	$ (58,202)	.948	$ 168,806	(34.50%)

Riverside County – Part-time and Temporary Help

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2002	$ 4,330	$ 7,103	$ (2,773)	.610	$ 18,956	(14.60%)
June 30, 2003	$ 5,945	$ 8,466	$ (2,521)	.702	$ 31,360	(8.03%)
June 30, 2004	$ 7,231	$ 9,338	$ (2,107)	.774	$ 29,670	(7.10%)

(Plan data available through June 30, 2004 only)

Flood Control and Water Conservation District

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2003	$ 59,490	$ 65,332	$ (5,842)	.911	$ 10,019	(58.30%)
June 30, 2004	$ 62,180	$ 71,615	$ (9,435)	.868	$ 11,324	(83.30%)
June 30, 2005	$ 69,637	$ 77,958	$ (8,321)	.893	$ 12,072	(68.90%)

COUNTY OF RIVERSIDE
Required Supplementary Information
June 30, 2006

SCHEDULES OF FUNDING PROGRESS (CONTINUED)

Regional Park and Open-Space District

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2003	$ 270,887	$ 335,030	$ (64,143)	.809	$ 75,358	(85.10%)
June 30, 2004	$ 334,956	$ 426,958	$ (92,002)	.785	$ 90,667	(101.50%)
June 30, 2005	$ 405,481	$ 499,323	$ (93,842)	.812	$ 108,618	(86.40%)

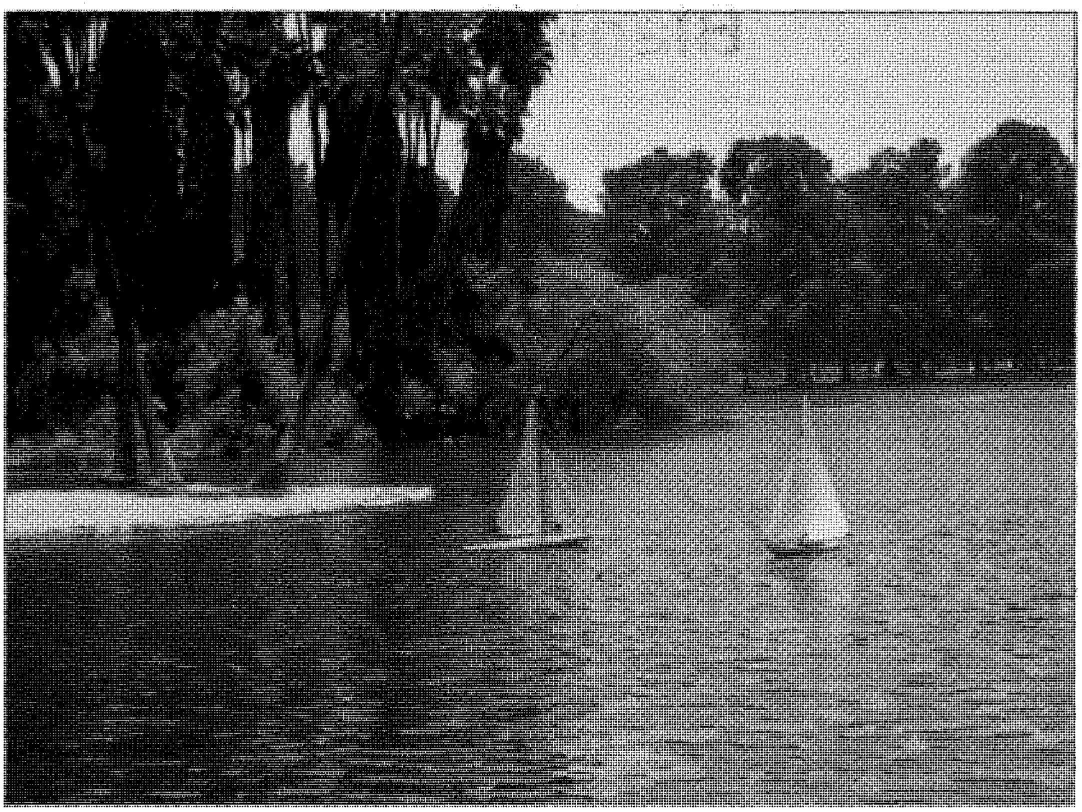
The amounts disclosed above are for the entire pooled risk fund in which Regional Parks participates and not of specific Regional Parks assets and liabilities. CalPERS pooled valuation does not break out specific assets and liabilities.

Waste Management Department

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Asset Value in Excess (Deficit) of AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Assets in Excess (Deficit) of AAL As a Percentage of Covered Payroll (a-b)/c
June 30, 2003	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2004	$ 334,956	$ 426,958	$ (92,002)	.785	$ 90,667	(101.50%)
June 30, 2005	$ 405,481	$ 499,323	$ (93,842)	.812	$ 108,618	(86.40%)

Waste Management Department (WMD) is in its second year of the pooled risk fund and therefore has not accumulated 3-year trend data to report as of June 30, 2006. The amounts disclosed are for the entire pooled risk fund in which WMD participates and not of specific assets and liabilities. CalPERS pooled valuation does not break out specific assets and liabilities.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND BUDGETARY SCHEDULES



PHOTOGRAPHER:
Robin Labriola
LOCATION:
Fairmount Park
Riverside, CA

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COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Teeter Debt Service Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ -	$ -	$ 573	$ 573
Other revenue	2,883	524	-	(524)
Total revenues	2,883	524	573	49
EXPENDITURES:				
Current:				
General government	2,883	2,883	615	(2,268)
Debt service:				
Interest	-	-	1,782	1,782
Cost of issuance	-	-	29	29
Total expenditures	2,883	2,883	2,426	(457)
Excess (deficiency) of revenues over (under) expenditures	-	(2,359)	(1,853)	506
OTHER FINANCING SOURCES (USES):				
Transfers in	-	7,012	7,012	-
Transfers out	-	-	(5,159)	(5,159)
Total other financing sources and (uses)	-	7,012	1,853	(5,159)
NET CHANGE IN FUND BALANCE	-	4,653	-	(4,653)
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	$ -	$ 4,653	$ -	$ (4,653)

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Public Facilities Improvements Capital Projects Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ -	$ -	$ 179	$ 179
License, permits and franchise fees	1,308	2,508	1	(2,507)
Use of money and property:				
Interest	1,347	1,347	6,142	4,795
Aid from other governmental agencies:				
State	-	-	3	3
Charges for services	43,542	44,073	42,466	(1,607)
Other revenue	44,896	48,902	32,344	(16,558)
Total revenues	91,093	96,830	81,135	(15,695)
EXPENDITURES:				
Current:				
General government	74,829	94,339	46,979	(47,360)
Public ways and facilities	36,299	37,120	1,620	(35,500)
Total expenditures	111,128	131,459	48,599	(82,860)
Excess (deficiency) of revenues over (under) expenditures	(20,035)	(34,629)	32,536	67,165
OTHER FINANCING SOURCES (USES):				
Transfers in	-	38,229	38,229	-
Transfers out	-	(23,481)	(23,481)	-
Total other financing sources and (uses)	-	14,748	14,748	-
NET CHANGE IN FUND BALANCE	(20,035)	(19,881)	47,284	67,165
Fund balance, beginning of year	175,699	175,699	175,699	-
FUND BALANCE, END OF YEAR	$ 155,664	$ 155,818	$ 222,983	$ 67,165

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Capital Projects Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 1,633	$ 1,633	$ 7,321	$ 5,688
Charges for current services	32	32	-	(32)
Other revenue	42,201	53,151	1,714	(51,437)
Total revenues	43,866	54,816	9,035	(45,781)
EXPENDITURES:				
Current:				
General government	43,867	50,546	40,393	(10,153)
Total expenditures	43,867	50,546	40,393	(10,153)
Excess (deficiency) of revenues over (under) expenditures	(1)	4,270	(31,358)	(35,628)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	8,050	8,050	-
Transfers out	-	(12,321)	(12,321)	-
Bond proceeds	-	107,972	107,972	-
Loss on sale of capital assets	-	-	(801)	(801)
Total other financing sources and (uses)	-	103,701	102,900	(801)
NET CHANGE IN FUND BALANCE	(1)	107,971	71,542	(36,429)
Fund balance, beginning of year	137,162	137,162	137,162	-
FUND BALANCE, END OF YEAR	$ 137,161	$ 245,133	$ 208,704	$ (36,429)

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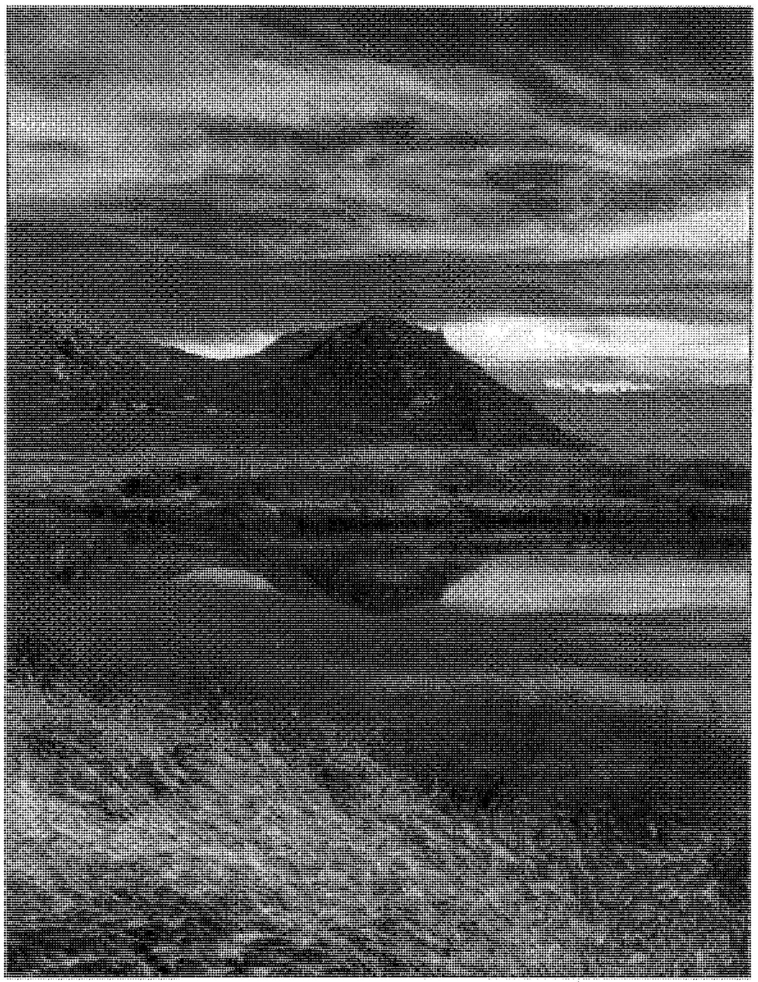
NONMAJOR GOVERNMENTAL FUNDS



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COUNTY OF RIVERSIDE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006
(Dollars in Thousands)

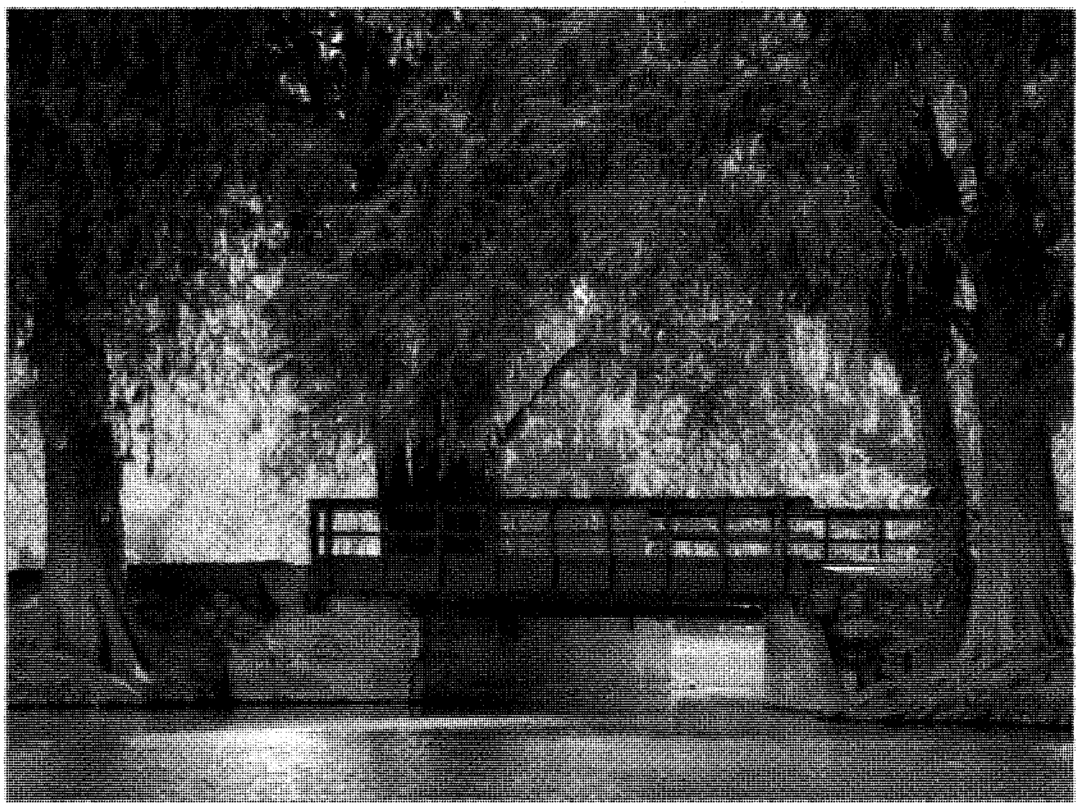
	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS:				
Cash and investments	$ 364,507	$ 38,626	$ 7,972	$ 411,105
Accounts receivable	6,885	3,286	-	10,171
Interest receivable	2,393	930	60	3,383
Taxes receivable	6,090	-	135	6,225
Due from other governments	11,768	-	333	12,101
Inventories	868	-	-	868
Due from other funds	1,178	-	-	1,178
Prepaid items	861	-	1,050	1,911
Restricted cash and investments	1,939	40,183	71,267	113,389
Notes receivable	14,703	-	-	14,703
Land held for resale	2,489	-	-	2,489
Total assets	413,681	83,025	80,817	577,523
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	19,215	3,090	899	23,204
Salaries and benefits payable	5,726	-	62	5,788
Due to other governments	3,853	-	-	3,853
Due to other funds	336	-	850	1,186
Deposits payable	319	-	-	319
Advance from other funds	20	-	-	20
Deferred revenue	20,884	-	320	21,204
Total liabilities	50,353	3,090	2,131	55,574
Fund balances:				
Reserved	41,313	79,935	76,630	197,878
Unreserved, designated, reported in:				
Special revenue funds	212,407	-	-	212,407
Capital projects funds	-	-	2,056	2,056
Unreserved, undesignated, reported in:				
Special revenue funds	109,608	-	-	109,608
Total fund balances	363,328	79,935	78,686	521,949
Total liabilities and fund balances	$ 413,681	$ 83,025	$ 80,817	$ 577,523

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006
(Dollar in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes	$ 134,191	$ 49,254	$ -	$ 183,445
Licenses, permits and franchise fees	163	-	-	163
Fines, forfeitures and penalties	679	-	-	679
Use of money and property:				
Interest	10,657	4,055	2,264	16,976
Rents and concessions	6,468	31,199	-	37,667
Aid from other governmental agencies:				
Federal	55,931	-	-	55,931
State	44,849	-	392	45,241
Charges for services	68,555	2,435	72	71,062
Other revenue	58,580	-	4,296	62,876
Total revenues	380,073	86,943	7,024	474,040
EXPENDITURES:				
Current:				
General government	32,586	24,897	1,154	58,637
Public protection	57,098	-	-	57,098
Public ways and facilities	135,467	-	-	135,467
Health and sanitation	9,599	-	-	9,599
Public assistance	40,625	-	-	40,625
Education	10,759	-	-	10,759
Recreation and culture	10,207	-	2,317	12,524
Debt service:				
Principal	3,186	23,898	-	27,084
Interest	1,207	55,574	-	56,781
Cost of issuance	-	4,896	-	4,896
Capital outlay	2,513	-	15,197	17,710
Total expenditures	303,247	109,265	18,668	431,180
Excess (deficiency) of revenues Over (under) expenditures	76,826	(22,322)	(11,644)	42,860
OTHER FINANCING SOURCES (USES):				
Transfers in	60,344	40,596	37,018	137,958
Transfers out	(90,762)	(40,209)	(1,576)	(132,547)
Bond proceeds	-	70,778	-	70,778
Premium on long-term debt	-	857	-	857
Redemption of refunded bonds	-	(35,684)	-	(35,684)
Proceeds on sale of capital assets	606	2,063	-	2,669
Total other financing sources (uses)	(29,812)	38,401	35,442	44,031
NET CHANGE IN FUND BALANCES	47,014	16,079	23,798	86,891
Fund balances, beginning of year	316,314	63,856	54,888	435,058
FUND BALANCES, END OF YEAR	$ 363,328	$ 79,935	$ 78,686	$ 521,949

SPECIAL REVENUE FUNDS



PHOTOGRAPHER:
Geoff Shaw
LOCATION:
Fairmount Park
Riverside, CA

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COUNTY OF RIVERSIDE

SPECIAL REVENUE FUNDS

These are funds established for the purpose of accounting for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted in expenditure for the specified purposes.

TRANSPORTATION FUND

This fund was established to provide for maintenance and construction of roadways and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share highway user taxes and are supplemented by Federal funds, vehicle code fines, and fees and reimbursements for engineering services provided.

FLOOD CONTROL FUND

The Flood Control fund accounts for revenues and expenditures related to providing flood control in various geographical zones. The fund is primarily financed by ad valorem property taxes, developer fees and local cooperative agreements.

COMMUNITY SERVICES FUND

This fund provides financing for public services. Public services provided by this fund group are: HUD Community Services Grant, EDA Administration, Community Action Agency, Job Training Partnership, Office On Aging, USEDA Grant, County Free Library, Structural Fire Protection, Homeless Housing Relief, Home Program, EDA US Department of Agriculture Rural Development, Workforce Development, Healthy Kids and Bio-terrorism Preparedness. The primary source of revenue for this fund is from State/Federal Grants.

REDEVELOPMENT AGENCY FUND

This fund was established to account for administration and revenues/expenditures related to the low and moderate income housing set aside program. 20% of the tax increments allocated to the Redevelopment Agency are required to be placed in this fund.

COUNTY SERVICE AREA FUND

This county service area fund was established to provide authorized services such as road, park, lighting maintenance, fire protection, or water to specified areas in the County. They are financed by ad valorem property taxes in the area benefited, or by special assessments levied on specific properties.

REGIONAL PARK AND OPEN-SPACE DISTRICT

The Regional Park and Open-Space District is a special district established to provide legal authority and expanded opportunity for open space acquisition and management and transferred regional park responsibility from the County of the District.

AIR QUALITY IMPROVEMENT FUND

This fund accounts for Riverside County's portion of State of California motor vehicle fees restricted for the use of reducing air pollution.

COUNTY OF RIVERSIDE

SPECIAL REVENUE FUNDS

IN-HOME SUPPORT SERVICES FUND

The goal of the IHSS program is to enable elderly and/or disabled persons to remain safely in independent living as long as possible. This in-home assistance is designed to allow persons to remain in their home rather than be placed in an institutional setting. IHSS receives revenue for the following services: meal preparation and clean-up, food shopping, bathing, dressing, personal care, domestic services (cleaning) assistance with medications.

OTHER SPECIAL REVENUE FUND

This fund provides financing to make services available to the public and governmental agencies. At the current time, the other special revenue fund accounts the following services: Rideshare, AD CFD Administration, Aviation, Ladera Irrigation, National Date Festival, Cal-ID, Special Aviation, Supervisorial Road Districts, Multi-Species Habitat Conservation Agency, Riverside U.S. Grazing Fees, Mitigation Project Operations, Airport Land Use Commission, Prop 10, IHSS Public Authority, and DNA Identification.

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COUNTY OF RIVERSIDE
Combining Balance Sheet
Special Revenue Funds
June 30, 2006
(Dollars in Thousands)

	Transportation	Flood Control	Community Services	Redevelopment Agency	County Service Areas
ASSETS:					
Cash and investments	$ 79,162	$ 136,596	$ 26,311	$ 80,367	$ 15,425
Accounts receivable	5,615	768	97	357	-
Interest receivable	488	1,040	54	498	117
Taxes receivable	70	2,806	2,469	-	318
Due from other governments	6,902	241	1,648	-	-
Inventories	868	-	-	-	-
Due from other funds	55	-	273	-	-
Prepaid Items	-	861	-	-	-
Restricted cash and investment	-	1,939	-	-	-
Notes receivable	-		-	14,703	-
Land held for resale	-	-	-	2,489	-
Total assets	93,160	144,251	30,852	98,414	15,860
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	15,655	1,045	1,615	128	56
Salaries and benefits payable	2,309	1,057	1,642	-	42
Due to other governments	1,378	2,315	92	-	42
Due to other funds	55	-	-	-	-
Deposits payable	-	-	-	-	319
Advances from other funds	-	-	20	-	-
Deferred revenue	16,077	1,944	1,186	-	1,240
Total liabilities	35,474	6,361	4,555	128	1,699
Fund balances (Note 14):					
Reserved:	4,501	940	3,267	29,953	2
Unreserved:					
Designated	38	133,906	526	68,333	5
Undesignated	53,147	3,044	22,504	-	14,154
Total fund balances	57,686	137,890	26,297	98,286	14,161
Total liabilities and fund balances	$ 93,160	$ 144,251	$ 30,852	$ 98,414	$ 15,860

Regional Park and Open-Space	Air Quality Improvement	In-Home Support Services	Other Special Revenue	Total	
					ASSETS:
$ 9,824	$ 1,051	$ 724	$ 15,047	$ 364,507	Cash and investments
7	-	-	41	6,885	Accounts receivable
82	9	1	104	2,393	Interest receivable
401	-	-	26	6,090	Taxes receivable
392	152	916	1,517	11,768	Due from other governments
-	-	-	-	868	Inventories
850	-	-	-	1,178	Due from other funds
-	-	-	-	861	Prepaid Items
-	-	-	-	1,939	Restricted cash and investment
-	-		-	14,703	Notes receivable
-	-	-	-	2,489	Land held for resale
11,556	1,212	1,641	16,735	413,681	Total assets
					LIABILITIES AND FUND BALANCES:
					Liabilities:
140	50	45	481	19,215	Accounts payable
354	-	90	232	5,726	Salaries and benefits payable
8	-	1	17	3,853	Due to other governments
-	8	-	273	336	Due to other funds
-	-	-	-	319	Deposits payable
-	-	-	-	20	Advances from other funds
16	152	-	269	20,884	Deferred revenue
518	210	136	1,272	50,353	Total liabilities
					Fund balances (Note 14):
1,442	-	21	1,187	41,313	Reserved:
					Unreserved:
9,596	-	-	3	212,407	Designated
-	1,002	1,484	14,273	109,608	Undesignated
11,038	1,002	1,505	15,463	363,328	Total fund balances
$ 11,556	$ 1,212	$ 1,641	$ 16,735	$ 413,681	Total liabilities and fund balances

COUNTY OF RIVERSIDE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Transportation	Flood Control	Community Services	Redevelopment Agency	County Service Areas
REVENUES:					
Taxes	$ 20,243	$ 40,103	$ 55,380	$ 12,314	$ 1,245
Licenses, permits and franchise fees	163	-	-	-	-
Fines, forfeitures and penalties	-	-	422	-	-
Use of money and property:					
Interest	1,862	4,455	176	2,862	480
Rents and concessions	-	73	702	-	7
Aid from other governmental agencies:					
Federal	8,466	887	42,982	-	-
State	31,246	606	6,570	-	17
Charges for services	27,869	19,402	1,332	-	7,322
Other revenue	36,577	4,441	15,663	536	48
Total revenues	126,426	69,967	123,227	15,712	9,119
EXPENDITURES:					
Current:					
General government	-	-	21,137	5,544	-
Public protection	1,955	51,831	-	-	21
Public ways and facilities	122,663	-	-	-	4,212
Health and sanitation	-	-	2,308	-	534
Public assistance	-	-	40,625	-	-
Education	-	-	10,759	-	-
Recreation and culture	-	-	-	-	781
Debt service:					
Principal	2,574	-	612	-	-
Interest	1,207	-	-	-	-
Capital outlay	-	2,091	-	-	-
Total expenditures	128,399	53,922	75,441	5,544	5,548
Excess (deficiency) of revenues over (under) expenditures	(1,973)	16,045	47,786	10,168	3,571
OTHER FINANCING SOURCES (USES):					
Transfers in	32,896	30	21,540	1,800	87
Transfers out	(10,531)	(2,151)	(61,619)	(10,123)	(2,625)
Proceeds on sale of capital assets	246		-	-	-
Total other financing sources (uses)	22,611	(2,121)	(40,079)	(8,323)	(2,538)
NET CHANGE IN FUND BALANCES	20,638	13,924	7,707	1,845	1,033
Fund balances, beginning of year	37,048	123,966	18,590	96,441	13,128
Adjustments to beginning fund balances	-	-	-	-	-
Fund balances, beginning of year	37,048	123,966	18,590	96,441	13,128
FUND BALANCES, END OF YEAR	$ 57,686	$ 137,890	$ 26,297	$ 98,286	$ 14,161

	Regional Park and Open-Space	Air Quality Improvement	In-Home Support Services	Other Special Revenue	Total
REVENUES:					
Taxes	$ 4,273	$ -	$ -	$ 633	$ 134,191
Licenses, permits and franchise fees	-	-	-	-	163
Fines, forfeitures and penalties	-	-	-	257	679
Use of money and property:					
Interest	314	38	8	462	10,657
Rents and concessions	505	-	-	5,181	6,468
Aid from other governmental agencies:					
Federal	48	-	1,772	1,776	55,931
State	568	609	265	4,968	44,849
Charges for services	4,225	-	-	8,405	68,555
Other revenue	172	-	-	1,143	58,580
Total revenues	10,105	647	2,045	22,825	380,073
EXPENDITURES:					
Current:					
General government	-	436	-	5,469	32,586
Public protection	10	-	-	3,281	57,098
Public ways and facilities	-	-	-	8,592	135,467
Health and sanitation	-	-	1,761	4,996	9,599
Public assistance	-	-	-	-	40,625
Education	-	-	-	-	10,759
Recreation and culture	9,426	-	-	-	10,207
Debt service:			-		
Principal	-	-	-	-	3,186
Interest	-	-	-	-	1,207
Capital outlay	422	-	-	-	2,513
Total expenditures	9,858	436	1,761	22,338	303,247
Excess (deficiency) of revenues over (under) expenditures	247	211	284	487	76,826
OTHER FINANCING SOURCES (USES):					
Transfers in	1,423	-	734	1,834	60,344
Transfers out	(251)	(277)	(518)	(2,667)	(90,762)
Proceeds on sale of capital assets	-	-		360	606
Total other financing sources (uses)	1,172	(277)	216	(473)	(29,812)
NET CHANGE IN FUND BALANCES	1,419	(66)	500	14	47,014
Fund balances, beginning of year	9,619	1,068	-	16,454	316,314
Adjustments to beginning fund balances	-		1,005	(1,005)	-
Fund balances, beginning of year	9,619	1,068	1,005	15,449	316,314
FUND BALANCES, END OF YEAR	$ 11,038	$ 1,002	$ 1,505	$ 15,463	$ 363,328

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Transportation Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 11,189	$ 18,509	$ 20,243	$ 1,734
License, permits and franchise fees	155	155	163	8
Use of money and property:				
Interest	263	263	1,862	1,599
Aid from other governmental agencies:				
Federal	27,072	17,256	8,466	(8,790)
State	27,910	30,179	31,246	1,067
Charges for current services	81,807	102,816	27,869	(74,947)
Other revenue	56,886	21,575	36,577	15,002
Total revenues	205,282	190,753	126,426	(64,327)
EXPENDITURES:				
Current:				
Public protection	3,277	3,160	1,955	(1,205)
Public ways and facilities	212,839	230,343	122,663	(107,680)
Debt service:				
Principal	-	-	2,574	2,574
Interest	-	-	1,207	1,207
Total expenditures	216,116	233,503	128,399	(105,104)
Excess (deficiency) of revenues over (under) expenditures	(10,834)	(42,750)	(1,973)	40,777
OTHER FINANCING SOURCES (USES):				
Transfers in	-	32,896	32,896	-
Transfers out	-	(10,531)	(10,531)	-
Gain on sale of assets	-	-	246	246
Total other financing sources and (uses)	-	22,365	22,611	246
NET CHANGE IN FUND BALANCE	(10,834)	(20,385)	20,638	41,023
Fund balance, beginning of year	37,048	37,048	37,048	-
FUND BALANCE, END OF YEAR	$ 26,214	$ 16,663	$ 57,686	$ 41,023

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Flood Control Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 28,328	$ 28,828	$ 40,103	$ 11,275
Use of money and property:				
Rents and concessions	104	104	73	(31)
Interest	1,594	1,594	4,455	2,861
Aid from other governmental agencies:				
Federal	-	-	887	887
State	540	540	606	66
Charges for services	12,351	12,776	19,402	6,626
Other revenue	5,764	5,734	4,441	(1,293)
Total revenues	48,681	49,576	69,967	20,391
EXPENDITURES:				
Current:				
Public protection	98,093	97,099	51,831	(45,268)
Capital outlay	-	-	2,091	2,091
Total expenditures	98,093	97,099	53,922	(43,177)
Excess (deficiency) of revenues over (under) expenditures	(49,412)	(47,523)	16,045	63,568
OTHER FINANCING SOURCES (USES):				
Transfers in	-	30	30	-
Transfers out	-	(2,151)	(2,151)	-
Total other financing sources (uses)	-	(2,121)	(2,121)	-
NET CHANGE IN FUND BALANCE	(49,412)	(49,644)	13,924	63,568
Fund balance, beginning of year	123,966	123,966	123,966	-
FUND BALANCE, END OF YEAR	$ 74,554	$ 74,322	$ 137,890	$ 63,568

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Community Services Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 45,309	$ 52,371	$ 55,380	$ 3,009
Fines, forfeitures and penalties	472	472	422	(50)
Use of money and property:				
Interest	48	48	176	128
Rents and concessions	854	854	702	(152)
Aid from other governmental agencies:				
Federal	53,184	53,808	42,982	(10,826)
State	6,285	6,940	6,570	(370)
Charges for current services	14,235	14,969	1,332	(13,637)
Other revenue	25,488	6,120	15,663	9,543
Total revenues	145,875	135,582	123,227	(12,355)
EXPENDITURES:				
Current:				
General government	22,467	30,748	21,137	(9,611)
Public protection	44,906	913	-	(913)
Health and sanitation	2,093	2,835	2,308	(527)
Public assistance	64,384	48,551	40,625	(7,926)
Education	12,240	12,226	10,759	(1,467)
Debt service:				
Principal	1,456	1,305	612	(693)
Total expenditures	147,546	96,578	75,441	(21,137)
Excess (deficiency) of revenues over (under) expenditures	(1,671)	39,004	47,786	8,782
OTHER FINANCING SOURCES (USES):				
Transfers in	-	21,540	21,540	-
Transfers out	-	(61,619)	(61,619)	-
Total other financing sources and (uses)	-	(40,079)	(40,079)	-
NET CHANGE IN FUND BALANCE	(1,671)	(1,075)	7,707	8,782
Fund balance, beginning of year	18,590	18,590	18,590	-
FUND BALANCE, END OF YEAR	$ 16,919	$ 17,515	$ 26,297	$ 8,782

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 8,355	$ 11,655	$ 12,314	$ 659
Use of money and property:				
Interest	1,240	1,240	2,862	1,622
Other revenue	4,082	4,282	536	(3,746)
Total revenues	13,677	17,177	15,712	(1,465)
EXPENDITURES:				
Current:				
General government	13,677	8,854	5,544	(3,310)
Total expenditures	13,677	8,854	5,544	(3,310)
Excess (deficiency) of revenues over (under) expenditures	-	8,323	10,168	1,845
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,800	1,800	-
Transfers out	-	(10,123)	(10,123)	-
Total other financing sources and (uses)	-	(8,323)	(8,323)	-
NET CHANGE IN FUND BALANCE	-	-	1,845	1,845
Fund balance, beginning of year	96,441	96,441	96,441	-
FUND BALANCE, END OF YEAR	$ 96,441	$ 96,441	$ 98,286	$ 1,845

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
County Service Areas Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 976	$ 976	$ 1,245	$ 269
Use of money and property:				
Interest	105	105	480	375
Rents and concessions	11	11	7	(4)
Aid from other governmental agencies:				
State	16	16	17	1
Charges for current services	6,386	6,299	7,322	1,023
Other revenue	27	77	48	(29)
Total revenues	7,521	7,484	9,119	1,635
EXPENDITURES:				
Current:				
Public protection	260	234	21	(213)
Public ways and facilities	5,867	5,166	4,212	(954)
Health and sanitation	898	898	534	(364)
Recreation and cultural services	1,583	1,625	781	(844)
Total expenditures	8,608	7,923	5,548	(2,375)
Excess (deficiency) of revenues over (under) expenditures	(1,087)	(439)	3,571	4,010
OTHER FINANCING SOURCES (USES):				
Transfers in	-	87	87	-
Transfers out	-	(2,625)	(2,625)	-
Total other financing sources and (uses)	-	(2,538)	(2,538)	-
NET CHANGE IN FUND BALANCE	(1,087)	(2,977)	1,033	4,010
Fund balance, beginning of year	13,128	13,128	13,128	-
FUND BALANCE, END OF YEAR	$ 12,041	$ 10,151	$ 14,161	$ 4,010

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Regional Park and Open-Space Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 3,250	$ 3,250	$ 4,273	$ 1,023
Use of money and property:				
Interest	165	165	314	149
Rents and concessions	493	493	505	12
Aid from other governmental agencies:				
Federal	-	-	48	48
State	100	983	568	(415)
Charges for current services	4,053	3,278	4,225	947
Other revenue	1,162	1,231	172	(1,059)
Total revenues	9,223	9,400	10,105	705
EXPENDITURES:				
Current:				
Public protection	9	11	10	(1)
Recreation and cultural services	10,758	12,210	9,426	(2,784)
Capital outlay	-	-	422	422
Total expenditures	10,767	12,221	9,858	(2,363)
Excess (deficiency) of revenues over (under) expenditures	(1,544)	(2,821)	247	3,068
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,423	1,423	-
Transfers out	-	(251)	(251)	-
Total other financing sources and (uses)	-	1,172	1,172	-
NET CHANGE IN FUND BALANCE	(1,544)	(1,649)	1,419	3,068
Fund balance, beginning of year	9,619	9,619	9,619	-
FUND BALANCE, END OF YEAR	$ 8,075	$ 7,970	$ 11,038	$ 3,068

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Air Quality Improvement Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 10	$ 10	$ 38	$ 28
Aid from other governmental agencies:				
State	585	585	609	24
Total revenues	595	595	647	52
EXPENDITURES:				
Current:				
General government	700	503	436	(67)
Total expenditures	700	503	436	(67)
Excess (deficiency) of revenues over (under) expenditures	(105)	92	211	119
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(277)	(277)	-
Total other financing sources / (uses)	-	(277)	(277)	-
NET CHANGE IN FUND BALANCE	(105)	(185)	(66)	119
Fund balance, beginning of year	1,068	1,068	1,068	-
FUND BALANCE, END OF YEAR	$ 963	$ 883	$ 1,002	$ 119

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
In-Home Support Services Special Revenue Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ -	$ -	$ 8	$ 8
Aid from other governmental agencies:				
Federal	1,183	1,183	1,772	589
State	1,125	1,125	265	(860)
Other revenue	734	-	-	-
Total revenues	3,042	2,308	2,045	(263)
EXPENDITURES:				
Current:				
Health and sanitation	3,042	2,524	1,761	(763)
Total expenditures	3,042	2,524	1,761	(763)
Excess (deficiency) of revenues over (under) expenditures	-	(216)	284	500
OTHER FINANCING SOURCES (USES):				
Transfers in	-	734	734	-
Transfers out	-	(518)	(518)	-
Total other financing sources / (uses)	-	216	216	-
NET CHANGE IN FUND BALANCE	-	-	500	500
Fund balance, beginning of year, previously reported	-	-	-	-
Adjustments to beginning fund balance	-	-	1,005	1,005
Fund balance, beginning of year, restated	-	-	1,005	1,005
FUND BALANCE, END OF YEAR	$ -	$ -	$ 1,505	$ 1,505

COUNTY OF RIVERSIDE

Budgetary Comparison Schedule

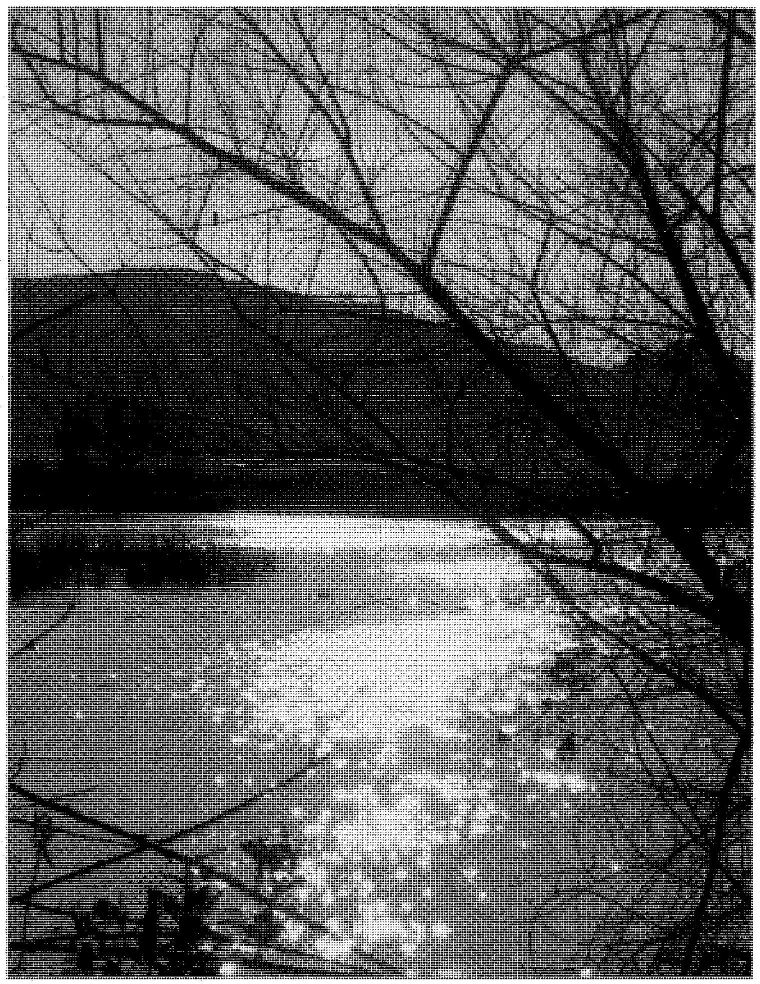
Other Special Revenue Fund

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 713	$ 615	$ 633	$ 18
Fines, forfeitures and penalties	-	-	257	257
Use of money and property:				
Interest	98	104	462	358
Rents and concessions	4,428	5,629	5,181	(448)
Aid from other governmental agencies:				
Federal	5,908	5,908	1,776	(4,132)
State	5,908	5,906	4,968	(938)
Charges for current services	9,409	9,338	8,405	(933)
Other revenue	470	2,332	1,143	(1,189)
Total revenues	26,934	29,832	22,825	(7,007)
EXPENDITURES:				
Current:				
General government	3,912	7,335	5,469	(1,866)
Public protection	3,575	4,225	3,281	(944)
Public ways and facilities	13,377	13,299	8,592	(4,707)
Health and sanitation	5,354	5,702	4,996	(706)
Recreation and cultural services	100	-	-	-
Total expenditures	26,318	30,561	22,338	(8,223)
Excess (deficiency) of revenues over (under) expenditures	616	(729)	487	1,216
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,834	1,834	-
Transfers out	-	(2,667)	(2,667)	-
Gain on sale of assets	-	-	360	360
Total other financing sources and (uses)	-	(833)	(473)	360
NET CHANGE IN FUND BALANCE	616	(1,562)	14	1,576
Fund balance, beginning of year, as previously reported	16,454	16,454	16,454	-
Adjustments to beginning fund balance	-	-	(1,005)	(1,005)
Fund balance, beginning of year, restated	16,454	16,454	15,449	(1,005)
FUND BALANCE, END OF YEAR	$ 17,070	$ 14,892	$ 15,463	$ 571

DEBT SERVICE FUNDS



PHOTOGRAPHER:
Kathy Peters
LOCATION:
San Jacinto River Park
San Jacinto, CA

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COUNTY OF RIVERSIDE

DEBT SERVICE FUNDS

COUNTY OF RIVERSIDE ASSET LEASING CORPORATION (CORAL)

CORAL is a non-profit public benefit corporation established to assist the County of Riverside by acquiring equipment and facilities financed from the proceeds of borrowing and leasing such equipment and facilities to the County.

FLOOD CONTROL

This fund receives revenue to pay principal and interest for flood control bonds. These bonds are legal obligations of Zones 2, 4, 6 and Flood Control and were issued to finance construction of flood control channels within each zone.

REDEVELOPMENT AGENCY

This fund receives tax increment revenue to pay principal and interest for Redevelopment Agency tax allocation bonds. These bonds are legal obligations of the Redevelopment Agency and were issued to finance construction of infrastructure and public facilities with various project areas.

DESERT FACILITIES CORPORATION

Desert Facilities Corporation is a non-profit corporation established for the purpose of financing the construction of a courthouse project for use by the County. The corporation was dissolved in fiscal year 2006. Remaining balances were transferred to the County of Riverside Asset Leasing Corporation.

COUNTY OF RIVERSIDE DISTRICT COURT FINANCING CORPORATION (DISTRICT COURT PROJECT)

District Court Project is a non-profit public benefit corporation established to assist the County of Riverside in the acquisition, construction and development of a United States District Courthouse, financed from the proceeds of the sale of certificates.

COUNTY OF RIVERSIDE BANKRUPTCY COURT CORPORATION (BANKRUPTCY COURT)

The Bankruptcy Court is a non-profit public benefit corporation established to assist the County of Riverside in the acquisition, construction and development of a United States Bankruptcy Court financed from the proceeds of the sale of certificates.

TAXABLE PENSION OBLIGATION BONDS (PENSION OBLIGATION)

This fund is used to account for Series 2005 bonds that were issued to satisfy a portion of Riverside County's unfunded accrued actuarial liability for the California Public Employee's Retirement System (CalPERS).

COUNTY OF RIVERSIDE
Combining Balance Sheet
Debt Service Funds
June 30, 2006
(Dollars in Thousands)

	CORAL	Flood Control	Redevelopment Agency	Desert Facilities Corporation
ASSETS:				
Cash and investments	$ -	$ -	$ 37,509	$ -
Accounts receivable	-	-	1,331	-
Interest receivable	194	-	525	-
Restricted cash and investments	34,157	-	-	-
Total assets	34,351	-	39,365	-
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	268	-	2,822	-
Total liabilities	268	-	2,822	-
Fund balances (Note 14):				
Reserved	34,083	-	36,543	-
Total fund balances	34,083	-	36,543	-
Total liabilities and fund balances	$ 34,351	$ -	$ 39,365	$ -

District Court Financing Corporation	Bankruptcy Court	Pension Obligation	Total	
				ASSETS:
$ -	$ -	$ 1,117	$ 38,626	Cash and investments
-	-	1,955	3,286	Accounts receivable
3	19	189	930	Interest receivable
760	5,266	-	40,183	Restricted cash and investments
763	5,285	3,261	83,025	Total assets
				LIABILITIES AND FUND BALANCES:
				Liabilities:
-	-	-	3,090	Accounts payable
-	-	-	3,090	Total liabilities
				Fund balances (Note 14):
763	5,285	3,261	79,935	Reserved
763	5,285	3,261	79,935	Total fund balances
$ 763	$ 5,285	$ 3,261	$ 83,025	Total liabilities and fund balances

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Debt Service Funds

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	CORAL	Flood Control	Redevelopment Agency	Desert Facilities Corporation
REVENUES:				
Taxes	$ -	$ -	$ 49,254	$ -
Use of money and property:				
Interest	1,568	-	1,287	203
Rents and concessions	26,445	-	-	205
Charges for services	-	-	-	-
Total revenues	28,013	-	50,541	408
EXPENDITURES:				
Current:				
General Government	378	-	18,199	-
Debt service:				
Principal	12,435	325	6,111	200
Interest	16,591	8	18,231	205
Cost of issuance	894	-	4,002	-
Total expenditures	30,298	333	46,543	405
Excess (deficiency) of revenues over (under) expenditures	(2,285)	(333)	3,998	3
OTHER FINANCING SOURCES (USES):				
Transfers in	532	333	12,470	-
Transfers out	(30,036)	-	(10,048)	(125)
Bond proceeds	34,675	-	36,103	-
Premium on long-term debt	48	-	809	-
Redemption of refunded bonds	-	-	(35,684)	-
Proceeds on sale of capital assets	-	-	2,063	-
Total other financing sources (uses)	5,219	333	5,713	(125)
NET CHANGE IN FUND BALANCES	2,934	-	9,711	(122)
Fund balances, beginning of year	31,149	-	26,832	122
FUND BALANCES, END OF YEAR	$ 34,083	$ -	$ 36,543	$ -

District Court Financing Corporation	Bankruptcy Court	Pension Obligation	Total	
				REVENUES:
$ -	$ -	$ -	$ 49,254	Taxes
				Use of money and property:
58	191	748	4,055	Interest
2,328	2,221	-	31,199	Rents and concessions
-	-	2,435	2,435	Charges for services
2,386	2,412	3,183	86,943	Total revenues
				EXPENDITURES:
				Current:
580	495	5,245	24,897	General government
				Debt service:
942	730	3,155	23,898	Principal
848	729	18,962	55,574	Interest
-	-	-	4,896	Cost of issuance
2,370	1,954	27,362	109,265	Total expenditures
				Excess (deficiency) of revenues
16	458	(24,179)	(22,322)	over (under) expenditures
				OTHER FINANCING SOURCES (USES):
-	-	27,261	40,596	Transfers in
-	-	-	(40,209)	Transfers out
-	-	-	70,778	Bond proceeds
-	-	-	857	Premium on long-term debt
-	-	-	(35,684)	Redemption of refunded bonds
-	-	-	2,063	Proceeds on sale of capital assets
-	-	27,261	38,401	Total other financing sources (uses)
16	458	3,082	16,079	NET CHANGE IN FUND BALANCES
747	4,827	179	63,856	Fund balances, beginning of year
$ 763	$ 5,285	$ 3,261	$ 79,935	FUND BALANCES, END OF YEAR

COUNTY OF RIVERSIDE

Budgetary Comparison Schedule

Flood Control Debt Service Fund

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
EXPENDITURES:				
Debt service:				
Principal	$ 333	$ 333	$ 325	$ (8)
Interest	-	-	8	8
Total expenditures	333	333	333	-
Excess (deficiency) of revenues over (under) expenditures	(333)	(333)	(333)	-
OTHER FINANCING SOURCES (USES):				
Transfers in	333	333	333	-
Total other financing sources and (uses)	333	333	333	-
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	$ -	$ -	$ -	$ -

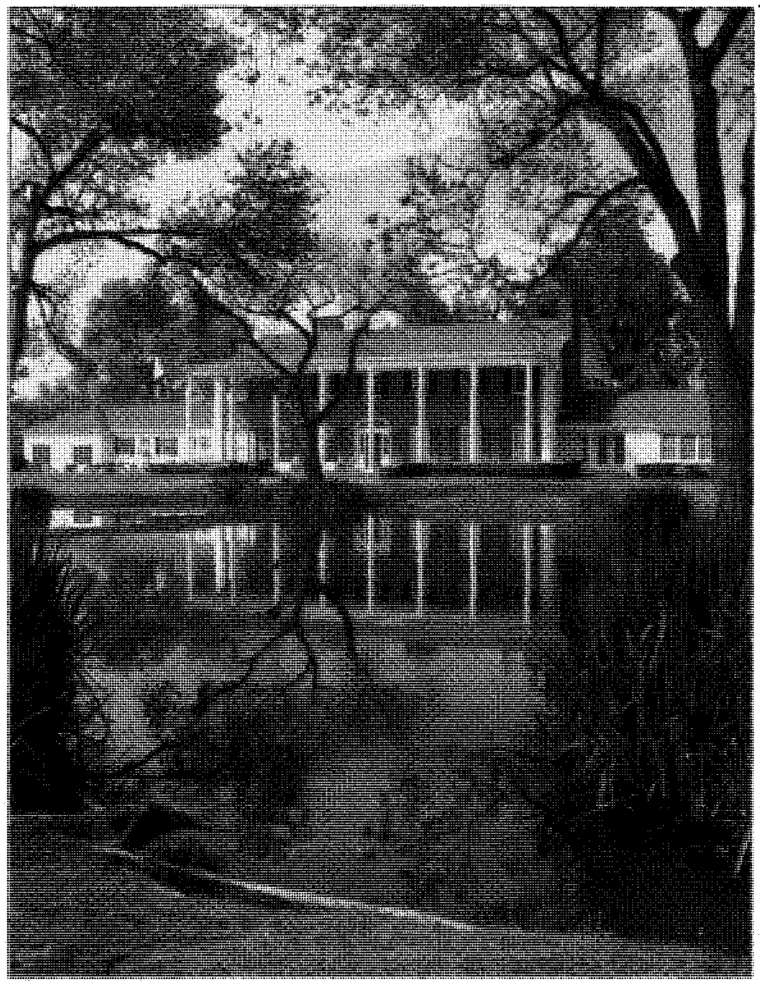
COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Debt Service Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Over (Under)
REVENUES:				
Taxes	$ 33,015	$ 47,015	$ 49,254	$ 2,239
Use of money and property:				
Interest	975	975	1,287	312
Total revenues	33,990	47,990	50,541	2,551
EXPENDITURES:				
Current:				
General government	40,747	90,699	18,199	(72,500)
Debt service:				
Principal	-	-	6,111	6,111
Interest	-	-	18,231	18,231
Cost of issuance	-	-	4,002	4,002
Total expenditures	40,747	90,699	46,543	(44,156)
Excess (deficiency) of revenues over (under) expenditures	(6,757)	(42,709)	3,998	46,707
OTHER FINANCING SOURCES (USES):				
Transfers in	-	12,470	12,470	-
Transfers out	-	(10,048)	(10,048)	-
Premium on long-term debt	-	809	809	-
Redemption of refunded bonds	-	-	(35,684)	(35,684)
Bond proceeds	6,757	37,415	36,103	(1,312)
Gain on sale of capital assets	-	2,063	2,063	-
Total other financing sources and (uses)	6,757	42,709	5,713	(36,996)
NET CHANGE IN FUND BALANCE	-	-	9,711	9,711
Fund balance, beginning of year	26,832	26,832	26,832	-
FUND BALANCE, END OF YEAR	$ 26,832	$ 26,832	$ 36,543	$ 9,711

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Pension Obligation Bond Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ -	$ 250	$ 748	$ 498
Charges for current services	22,117	856	2,435	1,579
Total revenues	22,117	1,106	3,183	2,077
EXPENDITURES:				
Current:				
General government	22,117	28,367	5,245	(23,122)
Debt service:				
Principal	-	-	3,155	3,155
Interest	-	-	18,962	18,962
Total expenditures	22,117	28,367	27,362	(1,005)
Excess (deficiency) of revenues over (under) expenditures	-	(27,261)	(24,179)	3,082
OTHER FINANCING SOURCES (USES):				
Transfers in	-	27,261	27,261	-
Total other financing sources and (uses)	-	27,261	27,261	-
NET CHANGE IN FUND BALANCE	-	-	3,082	3,082
Fund balance, beginning of year	179	179	179	-
FUND BALANCE, END OF YEAR	$ 179	$ 179	$ 3,261	$ 3,082

CAPITAL PROJECTS FUNDS



PHOTOGRAPHER:
Larry Knowles
LOCATION:
Park Headquarters
Riverside, CA

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COUNTY OF RIVERSIDE

CAPITAL PROJECTS FUNDS

EMERGENCY SERVICES COMMUNICATION (PSEC)

The Emergency Services Communication fund is a multi-agency undertaking to address the County of Riverside 800 MHz public safety radio coverage and operational problems. The multi-year project will result in either a massive upgrade or a complete replacement of the existing radio system.

COUNTY OF RIVERSIDE ASSET LEASING CORPORATION (CORAL)

CORAL is a non-profit public benefit corporation established to assist the County of Riverside by acquiring equipment and facilities financed from the proceeds of borrowing and leasing such equipment and facilities to the County.

FLOOD CONTROL

This fund is used to finance the construction of flood control channels and projects. Revenues are obtained from property taxes, special assessments and proceeds of tax allocation bonds.

DISTRICT COURT FINANCING CORPORATION

District Court Project is a non-profit public benefit corporation established to assist the County of Riverside in the acquisition, construction and development of a United States District Courthouse, financed from the proceeds of the sale of certificates.

REGIONAL PARK AND OPEN-SPACE DISTRICT

The Regional Park and Open-Space District is a special district established to provide legal authority and expanded opportunity for open space acquisition and management. The District's creation allowed for the transfer of regional park responsibility from the County to the District.

COUNTY OF RIVERSIDE
Combining Balance Sheet
Capital Projects Funds
June 30, 2006
(Dollars in Thousands)

	PSEC	CORAL	Flood Control
ASSETS:			
Cash and investments	$ 959	$ -	$ 470
Interest receivable	-	-	5
Taxes receivable	-	135	-
Due from other governments	-	-	-
Prepaid items	-	-	-
Restricted cash and investments	-	71,115	-
Total assets	959	71,250	475
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	55	510	234
Salaries and benefits payable	62	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Total liabilities	117	510	234
Fund balances (Note 14):			
Reserved	842	70,740	241
Unreserved:			
Designated	-	-	-
Total fund balances	842	70,740	241
Total liabilities and fund balances	$ 959	$ 71,250	$ 475

District Court Financing Corporation	Regional Park and Open-Space	Total	
			ASSETS:
$ -	$ 6,543	$ 7,972	Cash and investments
1	54	60	Interest receivable
-	-	135	Taxes receivable
-	333	333	Due from other governments
-	1,050	1,050	Prepaid items
152	-	71,267	Restricted cash and investments
153	7,980	80,817	Total assets
			LIABILITIES AND FUND BALANCES:
			Liabilities:
-	100	899	Accounts payable
-	-	62	Salaries and benefits payable
-	850	850	Due to other funds
-	320	320	Deferred revenue
-	1,270	2,131	Total liabilities
			Fund balances (Note 14):
153	4,654	76,630	Reserved
			Unreserved:
-	2,056	2,056	Designated
153	6,710	78,686	Total fund balances
$ 153	$ 7,980	$ 80,817	Total liabilities and fund balances

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Fund

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	PSEC	CORAL	Flood Control
REVENUES:			
Use of money and property:			
Interest	$ -	$ 2,025	$ 8
Aid from other governmental agencies:			
State	-	-	-
Charges for services	-	-	-
Other revenue	996	-	-
Total revenues	996	2,025	8
EXPENDITURES:			
Current:			
General government	1,154	-	-
Recreation and culture	-	-	-
Capital outlay	-	13,760	1,437
Total expenditures	1,154	13,760	1,437
Excess (deficiency) of revenues over (under) expenditures	(158)	(11,735)	(1,429)
OTHER FINANCING SOURCES (USES):			
Transfers in	1,000	30,035	1,582
Transfers out	-	(408)	-
Total other financing sources (uses)	1,000	29,627	1,582
NET CHANGE IN FUND BALANCES	842	17,892	153
Fund balances, beginning of year	-	52,848	88
FUND BALANCES, END OF YEAR	$ 842	$ 70,740	$ 241

District Court Financing Corporation	Regional Park and Open-Space	Total	
			REVENUES:
			Use of money and property:
$ 6	$ 225	$ 2,264	Interest
			Aid from other governmental agencies:
-	392	392	State
-	72	72	Charges for services
-	3,300	4,296	Other revenue
6	3,989	7,024	Total revenues
			EXPENDITURES:
			Current:
-	-	1,154	General government
-	2,317	2,317	Recreation and culture
-	-	15,197	Capital outlay
-	2,317	18,668	Total expenditures
			Excess (deficiency) of revenues
6	1,672	(11,644)	over (under) expenditures
			OTHER FINANCING SOURCES (USES):
-	4,401	37,018	Transfers in
-	(1,168)	(1,576)	Transfers out
-	3,233	35,442	Total other financing sources (uses)
6	4,905	23,798	NET CHANGE IN FUND BALANCES
147	1,805	54,888	Fund balances, beginning of year
$ 153	$ 6,710	$ 78,686	FUND BALANCES, END OF YEAR

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
PSEC Capital Project Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Other revenue	$ -	$ -	$ 996	$ 996
Total revenues	-	-	996	996
EXPENDITURES:				
Current:				
General government	-	2,084	1,154	(930)
Total expenditures	-	2,084	1,154	(930)
Excess (deficiency) of revenues over(under) expenditures	-	(2,084)	(158)	1,926
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,000	1,000	-
Total other financing sources and (uses)	-	1,000	1,000	-
NET CHANGE IN FUND BALANCE	-	(1,084)	842	1,926
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	$ -	$ (1,084)	$ 842	$ 1,926

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Flood Control Capital Projects Fund
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 1	$ 1	$ 8	$ 7
Charges for current services	3	3	-	(3)
Other revenue	2,020	438	-	(438)
Total revenues	2,024	442	8	(434)
EXPENDITURES:				
Capital outlay	2,085	2,085	1,437	(648)
Total expenditures	2,085	2,085	1,437	(648)
Excess (deficiency) of revenues over(under) expenditures	(61)	(1,643)	(1,429)	214
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,582	1,582	-
Total other financing sources and (uses)	-	1,582	1,582	-
NET CHANGE IN FUND BALANCE	(61)	(61)	153	214
Fund balance, beginning of year	88	88	88	-
FUND BALANCE, END OF YEAR	$ 27	$ 27	$ 241	$ 214

COUNTY OF RIVERSIDE

Budgetary Comparison Schedule

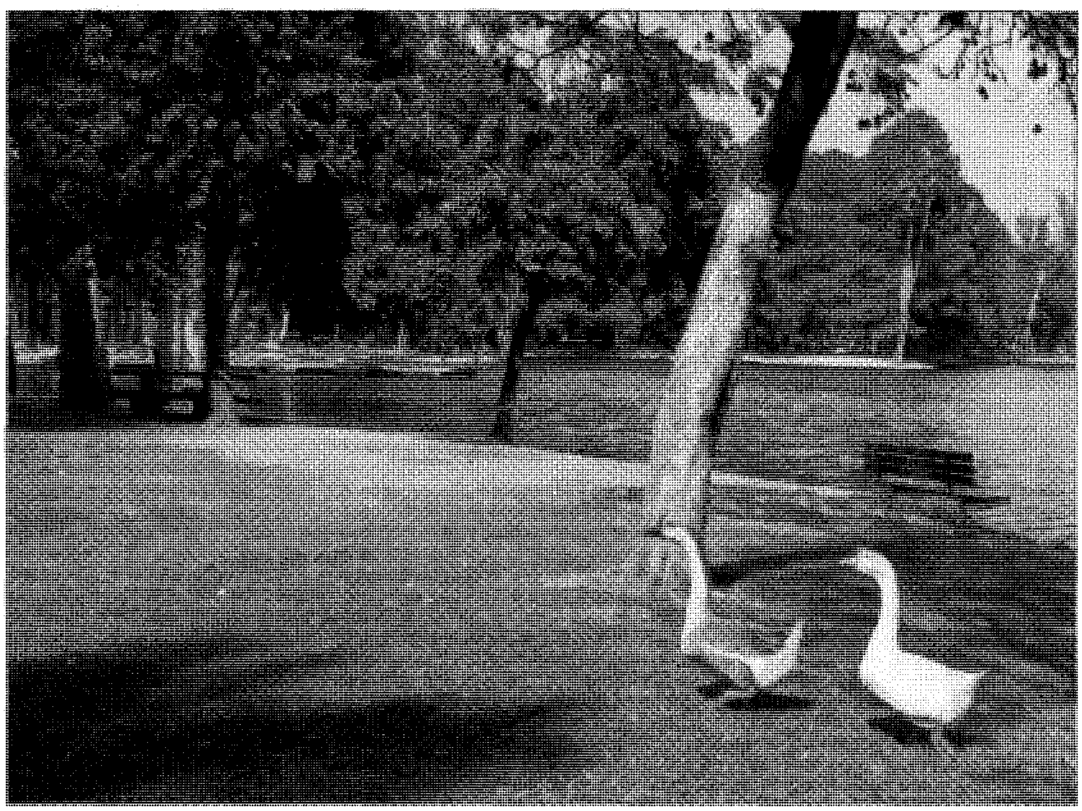
Regional Park and Open-Space District Capital Projects Fund

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 115	$ 115	$ 225	$ 110
Aid from other governmental agencies:				
State	4,730	4,730	392	(4,338)
Charges for current services	5,567	6,000	72	(5,928)
Other revenue	3,300	2,284	3,300	1,016
Total revenues	13,712	13,129	3,989	(9,140)
EXPENDITURES:				
Current:				
Recreation and cultural services	14,934	17,584	2,317	(15,267)
Total expenditures	14,934	17,584	2,317	(15,267)
Excess (deficiency) of revenues over (under) expenditures	(1,222)	(4,455)	1,672	6,127
OTHER FINANCING SOURCES (USES):				
Transfers in	-	4,401	4,401	-
Transfers out	-	(1,168)	(1,168)	-
Total other financing sources and (uses)	-	3,233	3,233	-
NET CHANGE IN FUND BALANCE	(1,222)	(1,222)	4,905	6,127
Fund balance, beginning of year	1,805	1,805	1,805	-
FUND BALANCE, END OF YEAR	$ 583	$ 583	$ 6,710	$ 6,127

NONMAJOR ENTERPRISE FUNDS



PHOTOGRAPHER:
Delia Fosdick
LOCATION:
Fairmount Park
Riverside, CA

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COUNTY OF RIVERSIDE

NONMAJOR ENTERPRISE FUNDS

These funds account for operations providing goods or services to the general public on a continuing basis. The accounting for these funds is in a manner similar to private enterprises and the intent of the governing body is that all costs are to be financed or recovered primarily through user charges.

COUNTY SERVICE AREA WATER AND SEWER DISTRICT FUNDS

This fund was established to account for revenues earned, expenses incurred, and the allocation of net income for County Service Areas 62 and 122.

HOUSING AUTHORITY

The Housing Authority was established to provide decent housing in a suitable living environment for families that cannot afford standard private housing.

FLOOD CONTROL

This fund was established to account for transactions resulting from topographical map sales, subdivision operations and issuance of encroachment permits.

COUNTY OF RIVERSIDE

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2006
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
ASSETS:				
Current assets:				
Cash and investments	$ 319	$ 11,430	$ 818	$ 12,567
Accounts receivable-net	-	174	1,614	1,788
Interest receivable	3	-	51	54
Taxes receivable	9	-	-	9
Due from other governments	-	92	43	135
Restricted cash and investments	-	1,757	2,217	3,974
Prepaid items and deposits	-	38	-	38
Total current assets	331	13,491	4,743	18,565
Noncurrent Assets:				
Capital assets:				
Depreciable assets	50	15,381	71	15,502
Nondepreciable assets	-	5,192	-	5,192
Total Noncurrent Assets	50	20,573	71	20,694
Total assets	381	34,064	4,814	39,259
LIABILITIES:				
Current liabilities:				
Accounts payable	-	-	318	318
Salaries and benefits payable	7	-	102	109
Interest payable	-	10	-	10
Deposits payable	47	-	-	47
Other liabilities	-	2,570	2,742	5,312
Compensated absences	2	-	63	65
Bonds payable	-	90	-	90
Total current liabilities	56	2,670	3,225	5,951
Noncurrent portion of long-term liabilities:				
Compensated absences	9	933	222	1,164
Bonds payable	-	892	-	892
Other long- term liabilities	-	6,795	-	6,795
Total noncurrent liabilities	9	8,620	222	8,851
Total liabilities	65	11,290	3,447	14,802
NET ASSETS:				
Invested in capital assets, net of related debt	50	13,778	71	13,899
Restricted	62	165	-	227
Unrestricted	204	8,831	1,296	10,331
Total net assets	$ 316	$ 22,774	$ 1,367	$ 24,457

COUNTY OF RIVERSIDE

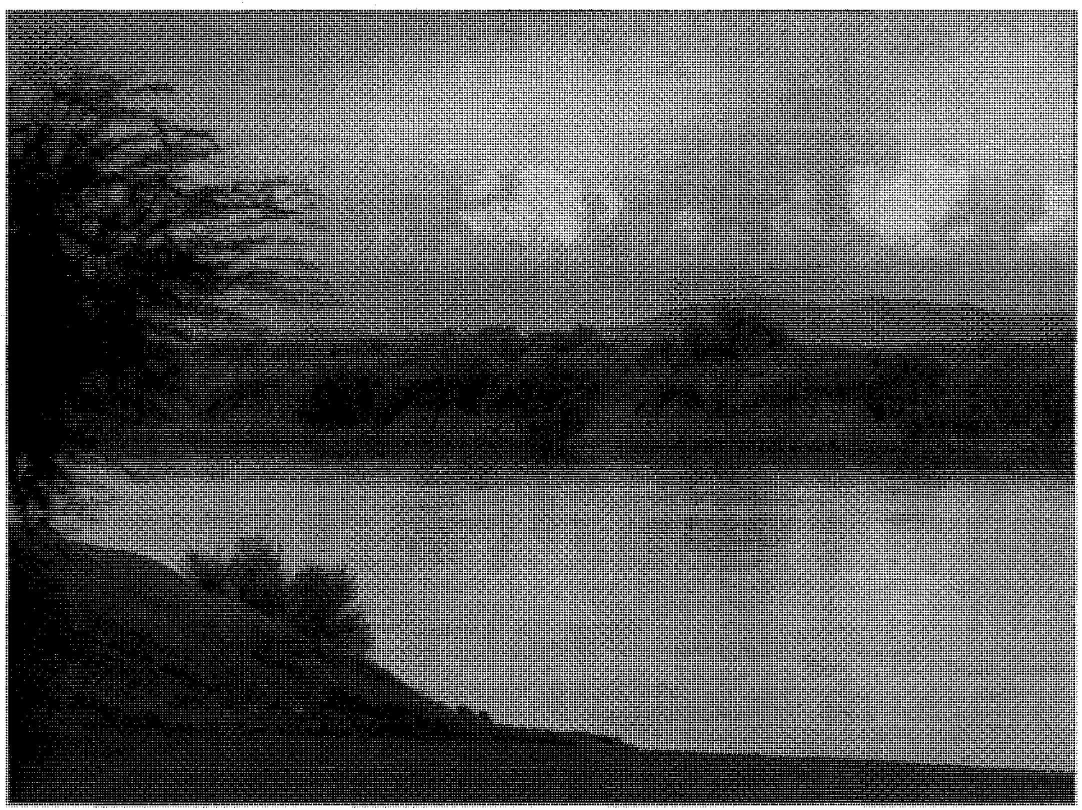
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
OPERATING REVENUES:				
Charges for services	$ 270	$ 1,655	$ 5,457	$ 7,382
Other	12	64,110	104	64,226
Total operating revenues	282	65,765	5,561	71,608
OPERATING EXPENSES:				
Personnel services	132	7,867	2,192	10,191
Communications	3	-	-	3
Insurance	6	-	-	6
Maintenance of building and equipment	37	1,802	7	1,846
Supplies	5	-	39	44
Purchased services	25	-	3,026	3,051
Depreciation and amortization	6	1,766	21	1,793
Rents and leases of equipment	-	-	28	28
Public assistance	-	50,429	-	50,429
Utilities	65	470	-	535
Other	3	1,047	20	1,070
Total operating expenses	282	63,381	5,333	68,996
Operating income (loss)	-	2,384	228	2,612
NONOPERATING REVENUES (EXPENSES):				
Investment income	10	353	211	574
Interest expense	(3)	(195)	-	(198)
Proceeds on sale of capital assets	-	667	-	667
Total nonoperating revenues (expenses)	7	825	211	1,043
Income (loss) before capital contribution, transfers, and special items	7	3,209	439	3,655
Transfers out	(2)	(171)	-	(173)
CHANGE IN NET ASSETS	5	3,038	439	3,482
Net assets, beginning of year	311	19,736	928	20,975
NET ASSETS, END OF YEAR	$ 316	$ 22,774	$ 1,367	$ 24,457

COUNTY OF RIVERSIDE
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ending June 30, 2006
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
Cash flows from operating activities				
Cash receipts from customers / other funds	$ 285	$ 65,747	$ 5,200	$ 71,232
Cash paid to suppliers for goods and services	(155)	(48,753)	(1,883)	(50,791)
Cash paid to employees for services	(149)	(7,517)	(2,138)	(9,804)
Net cash provided by (used in) operating activities	(19)	9,477	1,179	10,637
Cash flows from noncapital financing activities				
Transfers paid	(2)	(171)	-	(173)
Net cash provided by (used in) noncapital financing activities	(2)	(171)	-	(173)
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	-	667	-	667
Acquisition and construction of capital assets	-	(7,452)	-	(7,452)
Principal paid on bonds payable	-	(15)	-	(15)
Interest paid on long-term debt	(3)	(196)	-	(199)
Net cash used in capital and related financing activities	(3)	(6,996)	-	(6,999)
Cash flows from investing activities				
Interest received on investments	8	353	177	538
Net cash provided by investing activities	8	353	177	538
Net increase (decrease) in cash and cash equivalents	(16)	2,663	1,356	4,003
Cash and cash equivalents, beginning of year	335	10,524	1,679	12,538
Cash and cash equivalents, end of year	$ 319	$ 13,187	$ 3,035	$ 16,541
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	$ -	$ 2,384	$ 228	$ 2,612
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	6	1,766	21	1,793
Decrease (Increase) accounts receivable	-	(6)	(318)	(324)
Decrease (Increase) taxes receivable	3	-	-	3
Decrease (Increase) due from other governments	-	(12)	(43)	(55)
Decrease (Increase) prepaid items and deposits	-	(5)	-	(5)
Increase (Decrease) accounts payable	(10)	(36)	116	70
Increase (Decrease) due to other governments	-	(1,765)	-	(1,765)
Increase (Decrease) deposits payable	(1)	-	-	(1)
Increase (Decrease) other liabilities	-	6,801	1,121	7,922
Increase (Decrease) salaries and benefits payable	(14)	-	11	(3)
Increase (Decrease) compensated absences	(3)	350	43	390
Net cash provided by (used in) operating activities	$ (19)	$ 9,477	$ 1,179	$ 10,637

INTERNAL SERVICE FUNDS



PHOTOGRAPHER:
Geoff Shaw
LOCATION:
Collis Mayflower County Park
Blythe, CA

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COUNTY OF RIVERSIDE

INTERNAL SERVICE FUNDS

These funds were established to account for the goods or services furnished by one County department or agency to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis.

RECORDS MANAGEMENT FUND

This fund was established to support the operations of the Records Management & Archives Program. The program provides consistent standards and support services that promote responsible recordkeeping countywide. Sources of revenue include records storage, reformatting, preservation and consulting services.

FLEET SERVICES FUND

This fund finances the operation and maintenance of the Sheriff's department vehicles as well as for other County departments. Revenue is attained from other departments on a cost-reimbursement basis.

INFORMATION SERVICES FUND

This fund is supported by revenues received from County departments for services from the Information Services department for software systems support to computer network and data structure design and organization to County computer systems.

PRINTING SERVICES FUND

This fund accounts for the financing of printing and central mail services provided to County departments on a cost-reimbursement basis. This operation also provides such services as paper reclamation program, which collects and sells waste paper collected from County departments for recycling.

SUPPLY SERVICES FUND

The purpose of this fund is to provide financing to support an operation that provides County departments with merchandise and service on a cost-reimbursement basis.

OASIS PROJECT FUND

This fund was established to support the implementation, operation and maintenance of the County's central administrative information system for County departments. Revenue is obtained on a cost-reimbursement basis.

RISK MANAGEMENT FUND

This fund accounts for the financing of employee benefit insurances and County self-insurances. They include funding for medical, dental, disability, and unemployment insurance for applicable bargaining units, County general liability, medical malpractice and worker's compensation.

TEMPORARY ASSISTANCE POOL

The purpose of this fund is to provide a ready source of temporary workers to County departments with lower overhead charges than are typically levied by outside temporary employment agencies.

FLOOD CONTROL EQUIPMENT FUND

This fund was established to account for the financing of flood control equipment provided to other departments on a cost-reimbursement basis.

COUNTY OF RIVERSIDE

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2006
(Dollars in Thousands)

	Records Management and Archives	Fleet Services	Information Services	Printing Services	Supply Services
ASSETS:					
Current assets:					
Cash and investments	$ 443	$ 5,898	$ 11,644	$ 2,188	$ 3,197
Accounts receivable-net	-	64	-	29	1
Interest receivable	3	-	-	-	-
Advance to other funds	-	200	-	-	-
Inventories	-	469	1,000	324	308
Prepaid items and deposits	-	-	111	-	-
Total current assets	446	6,631	12,755	2,541	3,506
Noncurrent assets:					
Capital assets:					
Depreciable assets	84	27,268	9,017	929	333
Non depreciable assets	-	836	-	-	-
Total noncurrent assets	84	28,104	9,017	929	333
Total assets	530	34,735	21,772	3,470	3,839
LIABILITIES:					
Current liabilities:					
Accounts payable	15	3,934	2,321	101	861
Salaries and benefits payable	93	212	1,284	110	57
Other liabilities	-	2,072	-	4	90
Compensated absences	74	178	1,092	82	47
Capital lease obligation	-	5,719	1,441	239	-
Estimated claims liability	-	-	-	-	-
Total current liabilities	182	12,115	6,138	536	1,055
Noncurrent portion of long-term liabilities:					
Compensated absences	56	146	1,137	23	43
Advance from other funds	-	-	-	200	-
Capital lease obligation	-	10,035	2,020	132	-
Estimated claims liabilities	-	-	-	-	-
Other long term liabilities	-	1,500	-	-	-
Total noncurrent liabilities	56	11,681	3,157	355	43
Total liabilities	238	23,796	9,295	891	1,098
NET ASSETS:					
Invested in capital assets, net of related debt	84	10,850	5,556	558	333
Unrestricted (deficit)	208	89	6,921	2,021	2,408
Total net assets	$ 292	$ 10,939	$ 12,477	$ 2,579	$ 2,741

OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total	
					ASSETS:
					Current assets:
$ 8,595	$ 149,094	$ 2,594	$ 4,462	$ 188,115	Cash and investments
-	2,221	-	19	2,334	Accounts receivable-net
-	1,110	-	28	1,141	Interest receivable
-	-	-	-	200	Advance to other funds
-	-	-	232	2,333	Inventories
-	-	-	-	111	Prepaid items and deposits
8,595	152,425	2,594	4,741	194,234	Total current assets
					Noncurrent assets:
					Capital assets:
2,024	23	63	2,271	42,012	Depreciable assets
-	-	-	-	836	Non depreciable assets
2,024	23	63	2,271	42,848	Total noncurrent assets
10,619	152,448	2,657	7,012	237,082	Total assets
					LIABILITIES:
					Current liabilities:
886	2,777	153	401	11,449	Accounts payable
380	853	1,326	63	4,378	Salaries and benefits payable
-	1	-	-	2,167	Other liabilities
374	558	211	52	2,668	Compensated absences
-	-	-	-	7,399	Capital lease obligation
-	37,945	-	-	37,945	Estimated claims liability
1,640	42,134	1,690	516	66,006	Total current liabilities
					Noncurrent portion of long-term liabilities:
439	457	179	186	2,666	Compensated absences
-	-	-	-	200	Advance from other funds
-	-	-	-	12,187	Capital lease obligation
-	92,219	-	-	92,219	Estimated claims liabilities
-	-	-	-	1,500	Other long term liabilities
439	92,676	179	186	108,772	Total noncurrent liabilities
2,079	134,810	1,869	702	174,778	Total liabilities
					NET ASSETS:
					Invested in capital assets,
2,024	23	63	2,271	21,762	net of related debt
6,516	17,615	725	4,039	40,542	Unrestricted (deficit)
$ 8,540	$ 17,638	$ 788	$ 6,310	$ 62,304	Total net assets

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Internal Service Funds

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

	Records Management and Archives	Fleet Services	Information Services	Printing Services	Supply Services
OPERATING REVENUES:					
Charges for services	$ 2,439	$ 19,590	$ 35,378	$ 5,351	$ 7,967
Other revenue	8	297	15	2,956	4,922
Total operating revenues	2,447	19,887	35,393	8,307	12,889
OPERATING EXPENSES:					
Cost of materials used	-	1,383	-	-	-
Personnel services	1,542	3,188	17,829	1,592	616
Communications	12	79	3,818	32	28
Insurance	49	139	145	19	26
Maintenance of building and equipment	26	2,320	4,749	335	16
Insurance claims	-	-	-	-	-
Supplies	121	4,767	559	3,746	11,195
Purchased services	84	1,117	3,356	1,667	455
Depreciation and amortization	19	6,381	3,545	424	30
Rents and leases of equipment	264	1	1,119	43	1
Utilities	36	9	147	-	-
Other	46	124	685	61	103
Total operating expenses	2,199	19,508	35,952	7,919	12,470
Operating income (loss)	248	379	(559)	388	419
NONOPERATING REVENUES (EXPENSES):					
Investment income	10	(17)	(19)	(4)	(8)
Interest expense	(3)	(392)	(98)	(27)	-
Gain (loss) on disposal of capital assets	-	308	3	-	10
Total nonoperating revenues (expenses)	7	(101)	(114)	(31)	2
Income (loss) before capital contributions and transfers	255	278	(673)	357	421
Capital contributions	-	-	-	-	-
Transfers in	70	-	4,500	-	-
Transfers out	(33)	(81)	(457)	(39)	(15)
CHANGE IN NET ASSETS	292	197	3,370	318	406
Net assets, beginning of year	-	10,742	9,107	2,261	2,335
NET ASSETS, END OF YEAR	$ 292	$ 10,939	$ 12,477	$ 2,579	$ 2,741

OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total	
					OPERATING REVENUES:
$ 13,087	$ 47,551	$ 22,392	$ 1,230	$ 154,985	Charges for services
-	10,169	7	4,538	22,912	Other revenue
13,087	57,720	22,399	5,768	177,897	Total operating revenues
					OPERATING EXPENSES:
-	-	-	34	1,417	Cost of materials used
5,426	9,944	18,948	1,783	60,868	Personnel services
239	142	42	1	4,393	Communications
24	5,607	14	-	6,023	Insurance
1,831	52	5	525	9,859	Maintenance of building and equipment
-	55,706	-	-	55,706	Insurance claims
171	536	161	956	22,212	Supplies
4,539	2,772	1,900	1,357	17,247	Purchased services
905	23	33	820	12,180	Depreciation and amortization
185	635	155	3	2,406	Rents and leases of equipment
-	13	10	-	215	Utilities
114	1,077	525	566	3,301	Other
13,434	76,507	21,793	6,045	195,827	Total operating expenses
(347)	(18,787)	606	(277)	(17,930)	Operating income (loss)
					NONOPERATING REVENUES (EXPENSES):
(11)	4,383	(3)	120	4,451	Investment income
-	-	-	-	(520)	Interest expense
-	(1)	-	28	348	Gain (loss) on disposal of capital assets
(11)	4,382	(3)	148	4,279	Total nonoperating revenues (expenses)
(358)	(14,405)	603	(129)	(13,651)	Income (loss) before capital contributions and transfers
-	41,002	-	-	41,002	Capital contributions
-	2,168	-	206	6,944	Transfers in
(145)	(2,431)	(1,010)	-	(4,211)	Transfers out
(503)	26,334	(407)	77	30,084	CHANGE IN NET ASSETS
9,043	(8,696)	1,195	6,233	32,220	Net assets, beginning of year
$ 8,540	$ 17,638	$ 788	$ 6,310	$ 62,304	NET ASSETS, END OF YEAR

COUNTY OF RIVERSIDE
Combining Statements of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Record Mgt and Archive	Fleet Service	Information Services	Printing Services	Supply Services
Cash flows from operating activities					
Cash receipts from internal services provided	$ 2,447	$ 19,892	$ 35,393	$ 8,303	$ 12,888
Cash paid to suppliers for goods and services	(623)	(6,628)	(19,085)	(5,809)	(11,105)
Cash paid to employees for services	(1,319)	(3,152)	(17,685)	(1,568)	(592)
Net cash provided by (used in) operating activities	505	10,112	(1,377)	926	1,191
Cash flows from noncapital financing activities					
Advances from other funds	-	-	-	(200)	-
Advances to other funds	-	200	-	-	-
Transfers received	70	-	4,500	-	-
Transfers paid	(33)	(81)	(457)	(39)	(15)
Net cash provided by (used in) noncapital financing activities	37	119	4,043	(239)	(15)
Cash flows from capital and related financing activities					
Proceeds from sale of capital assets	-	308	207	-	13
Acquisition and construction of capital assets	(103)	(1,413)	-	(47)	-
Principal paid on capital leases	-	(5,948)	(1,522)	(230)	-
Capital contributions	-	-	-	-	-
Interest paid on long-term debt	(3)	(392)	(98)	(27)	-
Net cash used in capital and related financing activities	(106)	(7,445)	(1,413)	(304)	13
Cash flows from investing activities					
Interest received on investments	7	(17)	(19)	(4)	(8)
Net cash provided by investing activities	7	(17)	(19)	(4)	(8)
Net increase (decrease) in cash and cash equivalents	443	2,769	1,234	379	1,181
Cash and cash equivalents, beginning of year	-	3,129	10,410	1,809	2,016
Cash and cash equivalents, end of year	$ 443	$ 5,898	$ 11,644	$ 2,188	$ 3,197
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 248	$ 379	$ (559)	$ 388	$ 419
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation and amortization	19	6,381	3,545	424	30
Decrease (Increase) accounts receivable	-	5	-	(4)	(1)
Decrease (Increase) inventories	-	(50)	(75)	23	(74)
Increase (Decrease) accounts payable	15	3,279	68	67	705
Increase (Decrease) due to other funds	-	(105)	(4,500)	-	-
Increase (Decrease) due to other governments	-	-	-	-	(2)
Increase (Decrease) other liabilities	-	187	-	4	90
Increase (Decrease) estimated claims liability	-	-	-	-	-
Increase (Decrease) salaries and benefits payable	93	29	209	16	16
Increase (Decrease) compensated absences	130	7	(65)	8	8
Net cash provided by operating activities	$ 505	$ 10,112	$ (1,377)	$ 926	$ 1,191
Supplemental disclosure of noncash investing, capital, and financing activities		$ 11,544	$ 1,715		

OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total	
					Cash flows from operating activities
$ 13,087	$ 57,285	$ 22,399	$ 5,888	$ 177,582	Cash receipts from internal services provided
(6,320)	(61,883)	(2,791)	(3,225)	(117,469)	Cash paid to suppliers for goods and services
(5,422)	(9,607)	(18,525)	(1,770)	(59,640)	Cash paid to employees for services
1,345	(14,205)	1,083	893	473	Net cash provided by (used in) operating activities
					Cash flows from noncapital financing activities
-	-	-	-	(200)	Advances from other funds
-	-	-	-	200	Advances to other funds
-	2,168	-	206	6,944	Transfers received
(145)	(2,431)	(1,010)	-	(4,211)	Transfers paid
(145)	(263)	(1,010)	206	2,733	Net cash provided by (used in) noncapital financing activities
					Cash flows from capital and related financing activities
-	4	-	28	560	Proceeds from sale of capital assets
(1,030)	-	(13)	(807)	(3,413)	Acquisition and construction of capital assets
-	-	-	-	(7,700)	Principal paid on capital leases
-	41,002	-	-	41,002	Capital contributions
-	-	-	-	(520)	Interest paid on long-term debt
(1,030)	41,006	(13)	(779)	29,929	Net cash used in capital and related financing activities
					Cash flows from investing activities
(11)	3,714	(3)	106	3,765	Interest received on investments
(11)	3,714	(3)	106	3,765	Net cash provided by investing activities
159	30,252	57	426	36,900	Net increase (decrease) in cash and cash equivalents
8,436	118,842	2,537	4,036	151,215	Cash and cash equivalents, beginning of year
$ 8,595	$ 149,094	$ 2,594	$ 4,462	$ 188,115	Cash and cash equivalents, end of year
					Reconciliation of operating income to net cash provided (used) by operating activities
$ (347)	$ (18,787)	$ 606	$ (277)	$ (17,930)	Operating income (loss)
					Adjustments to reconcile operating income to net cash provided (used) by operating activities
905	23	33	820	12,180	Depreciation and amortization
-	(435)	-	120	(315)	Decrease (Increase) accounts receivable
-	-	-	(27)	(203)	Decrease (Increase) inventories
783	1,244	21	244	6,426	Increase (Decrease) accounts payable
-	-	-	-	(4,605)	Increase (Decrease) due to other funds
-	(8)	-	-	(10)	Increase (Decrease) due to other governments
-	-	-	-	281	Increase (Decrease) other liabilities
-	3,421	-	-	3,421	Increase (Decrease) estimated claims liability
55	210	342	(1)	969	Increase (Decrease) salaries and benefits payable
(51)	127	81	14	259	Increase (Decrease) compensated absences
$ 1,345	$ (14,205)	$ 1,083	$ 893	$ 473	Net cash provided by operating activities
				$ 13,259	Supplemental disclosure of noncash investing, capital, and financing activities

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FIDUCIARY FUNDS

PHOTOGRAPHER:
Geoff Shaw
LOCATION:
Collis Mayflower County Park
Blythe, CA

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COUNTY OF RIVERSIDE

FIDUCIARY FUNDS

These are funds established for the purpose of accounting for assets held in trustee or agency capacity for others and therefore cannot be used to support the government's own programs and are excluded from the government-wide financial statements.

OTHER AGENCY FUND

This fund was established to account for a wide array of fiduciary responsibilities. Some of these responsibilities include: Tax payments clearing, Asset forfeiture, State Controller clearing, child support collections, undistributed bond proceeds and family support clearing.

PAYROLL DEDUCTION AGENCY FUND

The purpose of this fund is to collect deductions from employee paychecks. The deductions are owed to a variety of third parties for health insurance, union dues, unemployment insurance, withholding tax, flexible spending accounts and dental insurance.

PROPERTY TAX ASSESSMENT AGENCY FUND

The Property Tax Assessment Agency Fund was set up to help Riverside County account for apportioned taxes clearing, delinquent mobile home fees, property tax refunds, special assessments, and Teeter Plan collections.

WARRANT AGENCY FUND

This fund was established as a clearing fund for various categories of warrants issued by Riverside County.

COUNTY OF RIVERSIDE

Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006
(Dollars in Thousands)

	Other	Payroll Deductions	Property Tax Assessments	Warrants	Total
ASSETS:					
Cash and investments	$ 126,666	$ 7,683	$ 133,295	$ 63,245	$ 330,889
Interest receivable	185	26	-	5	216
Taxes receivable	69	11	56,918	11	57,009
Due from other governments	14,676	-	12,356	-	27,032
Total assets	$ 141,596	$ 7,720	$ 202,569	$ 63,261	$ 415,146
LIABILITIES:					
Accounts payable	$ 141,504	$ 7,720	$ 1,396	$ 63,261	$ 213,881
Salaries and benefits payable	7	-	-	-	7
Due to other governments	85	-	201,173	-	201,258
Total liabilities	$ 141,596	$ 7,720	$ 202,569	$ 63,261	$ 415,146

COUNTY OF RIVERSIDE

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Fiscal Year Ended June 30, 2006

(Dollars in Thousands)

Other	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and investments	$ 74,159	$ 3,350,132	$ 3,297,625	$ 126,666
Accounts receivable	503	14,773	15,276	-
Interest receivable	127	194	136	185
Taxes receivable	7,906	69	7,906	69
Due from other governments	-	14,676	-	14,676
Total Assets	$ 82,695	$ 3,379,844	$ 3,320,943	$ 141,596
Liabilities				
Accounts payable	$ 82,688	$ 525,451	$ 466,635	$ 141,504
Salaries and benefits payable	7	6	6	7
Due to other governments	-	3,162,725	3,162,640	85
Total Liabilities	$ 82,695	$ 3,688,182	$ 3,629,281	$ 141,596

Payroll Deductions	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and investments	$ 5,182	$ 1,232,866	$ 1,230,365	$ 7,683
Interest receivable	1	26	1	26
Taxes receivable	10	11	10	11
Total Assets	$ 5,193	$ 1,232,903	$ 1,230,376	$ 7,720
Liabilities				
Accounts payable	$ 5,193	$ 793,950	$ 791,423	$ 7,720
Total Liabilities	$ 5,193	$ 793,950	$ 791,423	$ 7,720

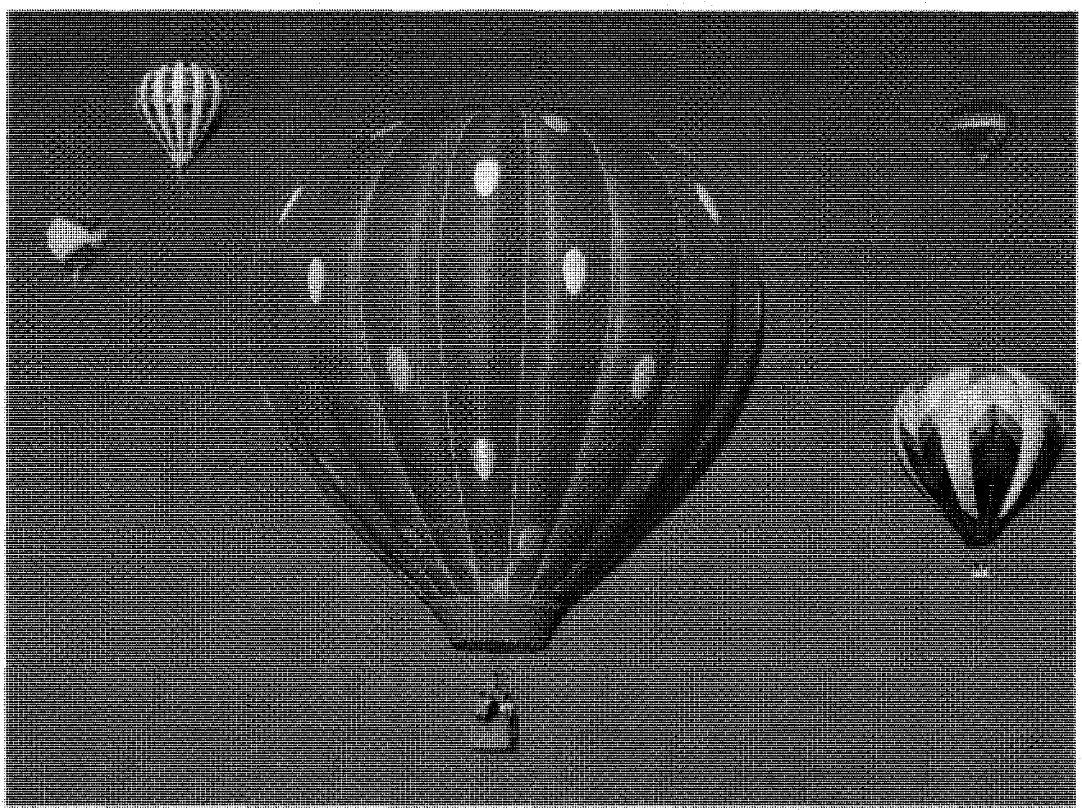
Property Tax Assessments	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and investments	$ 159,413	$ 2,695,220	$ 2,721,338	$ 133,295
Taxes receivable	32,885	56,918	32,885	56,918
Due from other governments	15,118	12,356	15,118	12,356
Total Assets	$ 207,416	$ 2,764,494	$ 2,769,341	$ 202,569
Liabilities				
Accounts payable	$ 80	$ 201,257	$ 199,941	$ 1,396
Due to other governments	206,829	2,680,177	2,685,833	201,173
Deposits payable	507	13,263	13,770	-
Total Liabilities	$ 207,416	$ 2,894,697	$ 2,899,544	$ 202,569

COUNTY OF RIVERSIDE

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Warrants				
Assets				
Cash and investments	$ 65,148	$ 5,048,664	$ 5,050,567	$ 63,245
Interest receivable	24	23	42	5
Taxes receivable	6	11	6	11
Total Assets	$ 65,178	$ 5,048,698	$ 5,050,615	$ 63,261
Liabilities				
Accounts payable	$ 65,177	$ 4,820,613	$ 4,822,529	$ 63,261
Due to other governments	1	-	1	-
Total Liabilities	$ 65,178	$ 4,820,613	$ 4,822,530	$ 63,261
Total Agency Funds				
Assets				
Cash and investments	$ 303,902	$ 12,326,882	$ 12,299,895	$ 330,889
Accounts receivable	503	14,773	15,276	-
Interest receivable	152	243	179	216
Taxes receivable	40,807	57,009	40,807	57,009
Due from other government	15,118	27,032	15,118	27,032
Total Assets	$ 360,482	$ 12,425,939	$ 12,371,275	$ 415,146
Liabilities				
Accounts payable	$ 153,138	$ 6,341,271	$ 6,280,528	$ 213,881
Salaries and benefits payable	7	6	6	7
Due to other government	206,830	5,842,902	5,848,474	201,258
Deposits payable	507	13,263	13,770	-
Total Liabilities	$ 360,482	$ 12,197,442	$ 12,142,778	$ 415,146

STATISTICAL SECTION



PHOTOGRAPHER:
Richard Paul
LOCATION:
Lake Skinner County Park
Temecula, CA

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Statistical Section

This section of the Riverside County Comprehensive Annual Financial Report presents additional detail, historical perspective, and context to assist the annual financial report users in understanding the financial statements, note disclosures, and required supplementary information, and to assist report users in assessing the County's financial condition.

<u>**Contents**</u> | <u>**Table(s)**</u>

Financial Trends Information — **T1 – T5**

These tables contain trend information to assist readers in understanding and assessing how the County's financial position has changed over time.

Net Assets by Component
Changes in Net Assets
Governmental Activities Tax Revenues by Source
Fund Balance of Governmental Funds
Changes in Fund Balances of Governmental Funds

Revenue Capacity Information — **T6 – T10**

These tables contain information to assist readers in understanding and assessing the factors affecting the County's local revenue sources, property tax, sales tax, and other taxes.

General Government Tax Revenues by source
Assessed Value and Estimated Actual Value of Taxable Property
Property Tax Rates, Direct and Overlapping Governments
Principal Property Tax Payers
Property Tax Levies and Collections

Debt Capacity Information — **T11 – T15**

These tables contain information to assist readers in understanding and assessing the County's current level of outstanding debt and the County's ability to issue additional debt.

Ratios of Outstanding Debt by Type
Ratios of General Bonded Debt Outstanding
Direct and Overlapping Governmental Activities Debt
Legal Debt Margin Information
Pledged-Revenue Coverage

Economic and Demographic Information — **T16 – T17**

These tables provide economic and demographic information to assist readers in understanding the socioeconomic environment within which the County operates, and to facilitate the comparisons of financial information over time.

Demographic and Economic Statistics
Principal employers

Operating Information — **T18 – T20**

These tables provide contextual information about the County's operations and resources to assist readers in understanding and assessing the County's financial condition as it relates to the services that the County provides.

Full-time Equivalent County Government Employees by function/program
Operating Indicators by Function
Capital Asset Statistics by Function

Source: Unless otherwise noted, the information in these tables is derived from Riverside County's Comprehensive Annual Financial Reports for the relevant years. The County implemented GASB Statement 34 in FY 2001-2002. Statistical Tables present information for the last four years beginning with the first year after GASB Statement 34 implementation.

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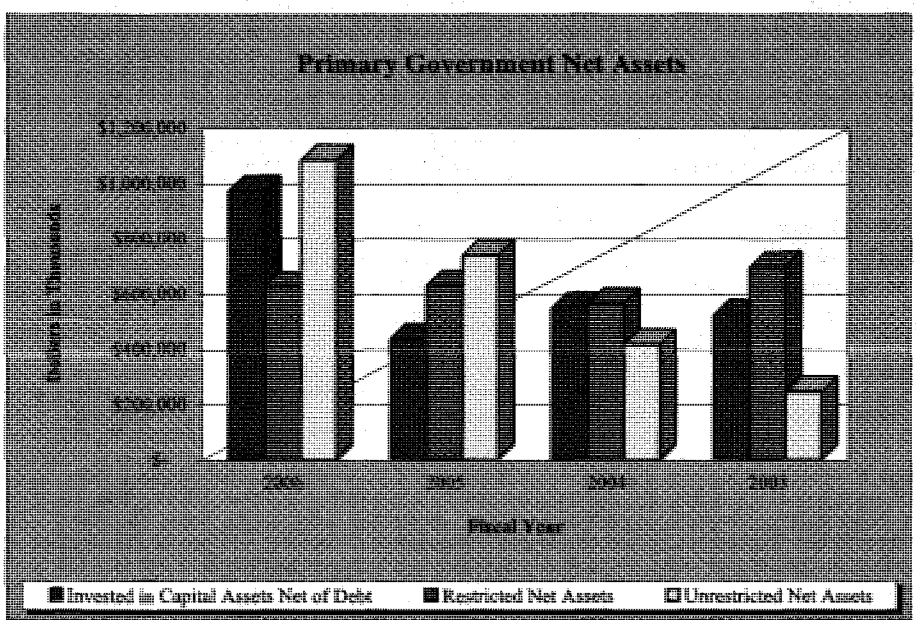
County of Riverside
Net Assets by Component
Last Four Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year 2006	2005	2004	2003
Governmental Activities				
Invested in capital assets, net of related debt	$ 930,800	$ 407,762	$ 524,624	$ 503,294
Restricted	582,037	584,441	521,143	662,446
Unrestricted	999,992	671,917	387,007	205,952
Governmental Activities, Total net assets	2,512,829	1,664,120	1,432,774	1,371,692
Business-type Activities				
Invested in capital assets, net of related debt	40,986	29,583	25,102	19,972
Restricted	41,287	45,362	43,232	33,740
Unrestricted	85,971	67,502	31,602	40,096
Business-type Activities, Total net assets	168,244	142,447	99,936	93,808
Primary Government				
Invested in capital assets, net of related debt	971,786	437,345	549,726	523,266
Restricted	623,324	629,803	564,375	696,186
Unrestricted	1,085,963	739,419	418,609	246,048
Primary Government, Total net assets	$ 2,681,073	$ 1,806,567	$ 1,532,710	$ 1,465,500



Source: Auditor-Controller, County of Riverside

Table 2

County of Riverside
Changes in Net Assets
Last Four Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year			
	2006	2005	2004	2003
Program Revenues				
Governmental Activities:				
Charges for Services	$ 558,739	$ 445,711	$ 424,644	$ 387,467
Operating Grants and Contributions	1,100,674	983,290	1,086,456	1,050,230
Capital Grants and Contributions	31,001	64,252	33,041	32,537
Governmental Activities Program Revenues	1,690,414	1,493,253	1,544,141	1,470,234
Business-type Activities:				
Charges for Services	465,391	480,455	385,028	299,419
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	227	-	125	9,712
Business-type Activities Program Revenues	465,618	480,455	385,153	309,131
Primary Government Program Revenues	2,156,032	1,973,708	1,929,294	1,779,365
Expenses				
Governmental Activities:				
General Government	259,993	187,911	232,322	183,132
Public Protection	801,044	792,287	710,053	620,663
Public Ways and Facilities	61,443	79,649	93,529	87,092
Health and Sanitation	350,451	290,001	376,338	330,830
Public Assistance	634,522	552,298	590,719	588,502
Education	11,168	10,112	10,280	8,609
Recreation and Cultural	7,188	8,617	9,666	8,842
Interest on Long-Term Debt	75,721	48,717	29,890	33,666
Governmental Activities Expenses	2,201,530	1,969,592	2,052,797	1,861,336
Business-type Activities:				
Regional Medical Center	290,962	356,255	296,227	228,339
Waste Management Department	66,453	55,563	40,056	36,579
Housing Authority	62,909	62,206	61,599	57,977
Flood Control	5,705	4,928	4,318	2,054
County Service Areas	285	320	329	294
Business-type Activities Expense	426,314	479,272	402,529	325,243
Primary Government Expenses	$ 2,627,844	$ 2,448,864	$ 2,455,326	$ 2,186,579
Net (Expense)/Revenue				
Governmental Activities	(511,116)	(476,339)	(508,656)	(391,102)
Business-type Activities	39,304	1,183	(17,376)	(16,112)
Primary Government, net (expense) / revenue	(471,812)	(475,156)	(526,032)	(407,214)

Table 2

County of Riverside
Changes in Net Assets
Last Four Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

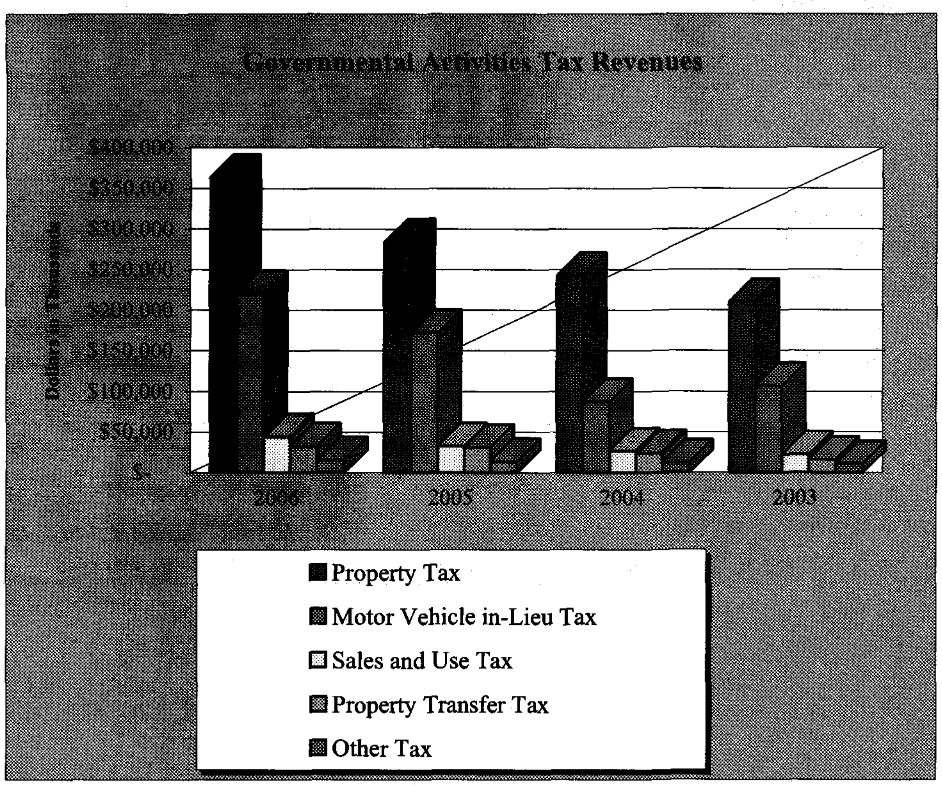
	Fiscal Year			
	2006	**2005**	**2004**	**2003**
Continued:				
Primary Government, net (expense) / revenue	(471,812)	(475,156)	(526,032)	(407,214)
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Property Taxes	396,167	314,666	266,391	225,775
Sales Tax and Use Tax	44,286	33,091	26,633	22,444
Other Taxes	15,603	13,885	12,108	10,377
Intergovernmental revenue not restricted to programs:				
Contractual Revenue - Redevelopment	16,332	13,281	11,385	6,015
Motor Vehicle In-Lieu Taxes	220,190	172,265	87,435	106,466
Fines, forfeitures, and penalties	-	70,578	43,344	37,914
Investment Earnings	78,288	39,907	16,835	24,909
Proceeds on Sale of Capital Assets	-	(18,407)	1,491	504
Other	96,265	117,737	146,392	117,706
Transfers	19,888	(31,000)	(16,791)	(13,287)
Governmental Activities	887,019	726,003	595,223	538,823
Business-type Activities:				
Investment Earnings	6,381	4,234	2,505	3,235
Gain on Sale of Capital Assets	-	346	4,208	754
Transfers	(19,888)	31,000	16,791	13,287
Business-Type Activities	(13,507)	35,580	23,504	17,276
Total Primary Government	873,512	761,583	618,727	556,099
Change in Net Assets				
Governmental Activities	375,903	249,664	86,567	147,721
Business-Type Activities	25,797	36,763	6,128	1,164
Primary Government Change in Net Assets	$ 401,700	$ 286,427	$ 92,695	$ 148,885

Source: Auditor-Controller, County of Riverside

Table 3

County of Riverside
Governmental Activities Tax Revenues By Source
Last Four Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

Fiscal Year	Property Tax	Property Transfer Tax	Sales and Use Tax	Motor Vehicle In-Lieu Tax	Other Tax	Total
2006	$ 363,407	$ 32,760	$ 44,286	$ 220,190	$ 15,603	$ 676,246
2005	283,660	31,006	33,091	172,265	13,885	533,907
2004	242,647	23,744	26,633	87,435	12,108	392,567
2003	209,979	15,796	22,444	106,466	10,377	365,062



Source: Auditor-Controller, County of Riverside

Table 4

County of Riverside
Fund Balances of Governmental Funds
Last Four Fiscal Years
(Modified accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year			
	2006	2005	2004	2003
General Fund				
Reserved	$ 100,436	$ 121,249	$ 100,940	$ 103,489
Unreserved - Designated	277,833	185,014	70,361	89,011
Unreserved - Undesignated	68,649	46,191	77,752	26,078
Total General fund	446,918	352,454	249,053	218,578
Public Facilities Improvements				
Reserved	222,983	175,699	152,842	146,588
Unreserved - Undesignated	-	-	184	-
Total Public Facilities Improvements	222,983	175,699	153,026	146,588
Redevelopment Capital Projects				
Reserved	88,391	61,460	-	-
Unreserved - Designated	120,313	75,702	-	-
Total Redevelopment Capital Projects	208,704	137,162	-	-
Nonmajor Governmental Funds				
Reserved	197,878	149,222	159,413	159,357
Unreserved - Designated Reported in::				
Special Revenue Funds	212,407	86,593	13,041	11,929
Capital Projects Funds	2,056	1,805	20,353	5,128
Debt Service Funds	-	-	-	-
Unreserved, Reported in:				
Special Revenue Funds	109,608	197,438	189,570	186,964
Capital Projects Funds	-	-	(8,241)	981
Total Nonmajor Governmental Funds	521,949	435,058	374,136	364,359
Total all Governmental Funds	$ 1,400,554	$ 1,100,373	$ 776,215	$ 729,525

Source: Auditor-Controller, County of Riverside

Table 5

County of Riverside
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(Modified accrual basis of accounting)
(Amounts expressed in thousands)

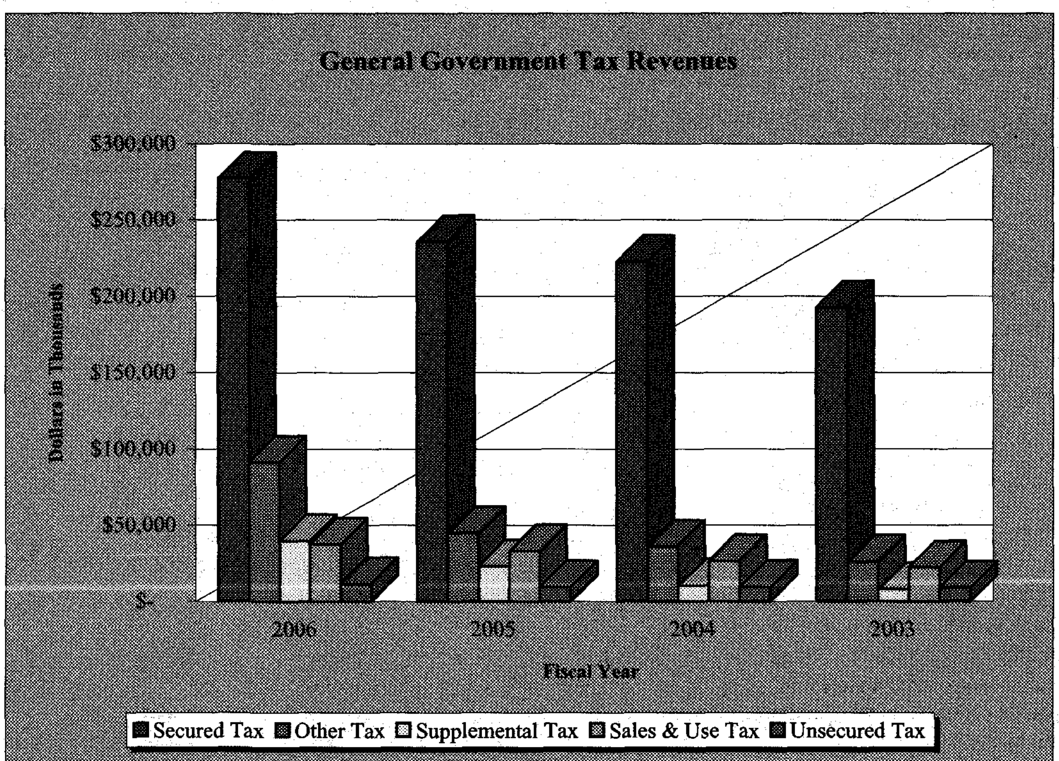
	Fiscal Year			
	2006	2005	2004	2003
Revenues				
Taxes	$ 457,117	$ 346,248	$ 305,132	$ 258,596
Licenses, Permits and Franchise Fees	21,733	22,343	26,418	25,677
Fines, Forfeitures and Penalties	62,984	70,578	43,297	37,241
Use of Money and Property:				
Interest	73,838	37,624	16,145	23,331
Rents and concessions	41,798	39,831	31,952	39,833
Aid from Other Governmental Agencies:				
Federal	451,036	446,628	430,970	428,433
State	830,634	705,289	713,146	696,466
Other	69,042	55,661	46,750	46,099
Charges for Services	439,594	383,497	368,497	327,918
Other Revenue	110,870	146,800	100,404	132,900
Total Revenues	2,558,646	2,254,499	2,082,711	2,016,494
Expenditures				
General Government	270,340	250,568	217,416	204,861
Public Protection	855,133	1,039,822	677,798	613,781
Public Ways and Facilities	141,017	111,088	133,973	120,490
Health and Sanitation	346,738	339,444	365,727	339,123
Public Assistance	629,553	652,069	576,267	570,458
Education	11,108	9,889	10,241	9,261
Recreation and Culture	12,727	20,058	9,242	10,722
Debt Service:				
Principal	45,516	34,452	32,118	37,643
Interest	73,707	46,439	24,523	31,220
Cost of Issuance	4,925	9,283	504	-
Capital Outlay	25,639	9,680	1,604	22,489
Total Expenditures	2,416,403	2,522,792	2,049,413	1,960,048
Revenues Over (Under) Expenditures	142,243	(268,293)	33,298	56,446
Other Financing Sources (Uses)				
Transfers In	294,835	203,411	163,383	58,661
Transfers Out	(277,680)	(229,835)	(179,701)	(71,879)
Bond Proceeds	178,750	618,159	21,645	-
Issuance of Refunding bonds	-	52,371	-	-
Premium on Long-term Debt	857	4,827	-	-
Redemption of Refunded Bonds	(35,684)	(53,338)	-	-
Proceeds from the Sale of Capital Assets	2,064	35	494	-
Capital Leases	7,929	6,616	1,008	8,435
Total Other Financing Sources (Uses)	171,071	602,246	6,829	(4,783)
Net Change in Fund Balances	$ 313,314	$ 333,953	$ 40,127	$ 51,663
Debt Service as a Percentage of Non-Capital Expenditures	5.19%	3.59%	2.79%	3.55%

Source: Auditor-Controller, County of Riverside

Table 6

County of Riverside
General Government Tax Revenues By Source
Last Four Fiscal Years
(Modified accrual basis of accounting)
(Amounts expressed in thousands)

Fiscal Year	Secured Tax	Unsecured Tax	Supplemental Tax	Sales & Use Tax	Other Taxes	Total
2006	$ 277,266	$ 11,405	$ 39,661	$ 37,532	$ 91,253	$ 457,117
2005	235,636	9,501	23,129	33,091	44,891	346,248
2004	222,635	9,600	10,411	26,633	35,853	305,132
2003	192,684	9,112	8,182	22,444	26,174	258,596

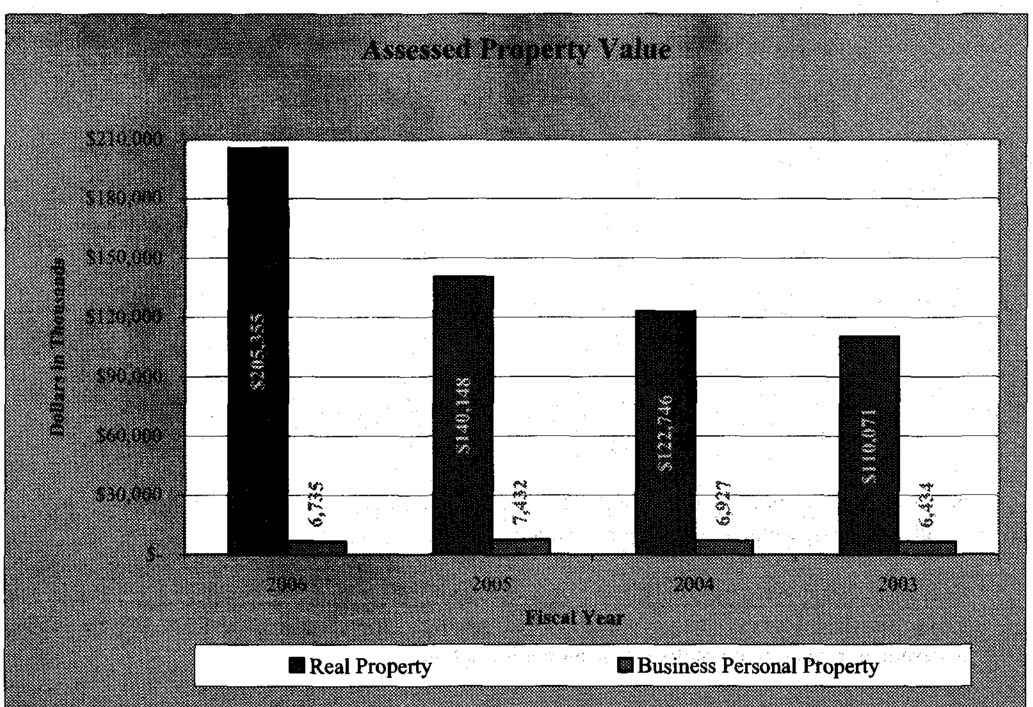


Source: Auditor-Controller, County of Riverside

Table 7

County of Riverside
Assessed Value and Estimated Actual Value of Taxable Property
Last Four Fiscal Years
(Amounts expressed in thousands)

	Fiscal Year			
	2006	**2005**	**2004**	**2003**
Real Property				
Secured Property	$ 198,619,682	$ 134,299,740	$ 117,379,593	$ 105,080,028
Unsecured Property	6,735,421	5,848,602	5,365,993	4,990,478
Business Personal Property				
General Business	4,648,399	5,371,884	4,956,546	4,741,290
Other	2,087,022	2,060,530	1,970,388	1,692,296
Total Gross Assessed Value	212,090,524	147,580,756	129,672,520	116,504,092
Less:				
Tax-Exempt Real Property	5,109,756	4,657,680	4,264,442	3,878,514
Total Taxable Assessed Value	206,980,768	142,923,076	125,408,078	112,625,578
Total Direct Tax Rate	$ 1.0805	$ 1.0866	$ 1.0771	$ 1.0787
Estimated Actual Taxable Value	$ 275,974,357	$ 190,564,101	$ 167,210,771	$ 150,167,437
Assessed Value as a Percentage of Actual Value	76.85%	77.44%	77.55%	77.58%



Source: Assessor-Clerk-Recorder, County of Riverside

County of Riverside
Property Tax Rates
Direct and Overlapping Governments
Last Four Fiscal Years

	Fiscal Year			
	2006	2005	2004	2003
County of Riverside				
Total County Rate	1.00000%	1.00000%	1.00000%	1.00000%
Range of Overlapping Rates				
Total City Rate	.00426% to .00861%	.00529% to .01092%	0% to .00608%	0% to .00792%
Total School District Rate	.01435% to .10210%	.01192% to .09581%	0% to .09819%	0% to .09750%
Total Special District Rate	0% to .50997%	0% to .50000%	0% to .72543%	0% to .71888%
Total Direct and Overlapping Rates	1% to 1.50997%	1% to 1.50000%	1% to 1.72543%	1% to 1.71888%

Note: Overlapping governments in the context of the statistical section, all local governments located wholly or in part within the geographic boundaries of the reporting government.

Overlapping rate in the context of the statistical section, an amount or percentage applied to a unit of a specific revenue base by governments that overlap geographically, at least in part, with the government preparing the statistical section information.

Source: Auditor-Controller, County of Riverside

Table 9

County of Riverside
Principal Property Tax Payers
(Amounts expressed in thousands)

	Fiscal Year							
	2006		2005		2004		2003	
Tax Payer	Taxable Assessed Value	% of Total County Taxable Assessed Value	Taxable Assessed Value	% of Total County Taxable Assessed Value	Taxable Assessed Value	% of Total County Taxable Assessed Value	Taxable Assessed Value	% of Total County Taxable Assessed Value
So. California Edison Co.	$ 8,679	0.41%	$ 7,276	0.42%	$ 6,911	0.45%	$ 5,253	0.55%
Verizon California Inc.	7,242	0.34%	7,460	0.43%	6,631	0.43%	7,486	0.38%
Centex Homes	7,057	0.33%	5,251	0.30%				
Pulte Home Corp.	5,400	0.25%	3,221	0.18%	2,548	0.17%		
KB Home Costal Inc.	3,743	0.18%	3,924	0.22%	3,506	0.23%		
So. California Gas Co.	3,737	0.18%	3,621	0.21%	3,461	0.23%	3,144	0.23%
Ryland Homes of California Inc.	3,558	0.17%						
Western Pacific Housing Inc.	3,266	0.15%						
Blythe Energy, LLC	3,008	0.14%	3,099	0.18%	3,462	0.23%	1,894	0.14%
Wolf Creek Development	2,567	0.12%						
P.G.C.C.			2,906	0.17%				
KSL Desert Resorts, Inc.			2,448	0.14%	2,554	0.17%	2,555	0.19%
Murdy S.P.			2,338	0.13%				
DS Hotel					2,741	0.18%		
Norco Ridge Ranch					2,391	0.16%		
Tyler Mall LTD, Partnership					2,185	0.14%		
Desert Springs Marriott Ltd Partnership							2,694	0.20%
Pacific Bell							2,545	0.19%
OTR							2,294	0.17%
Woodside Glenoaks Inc.							1,936	0.14%
Overland Moreno Valley							1,582	0.12%
Total	$ 48,257		$ 34,268		$ 36,390		$ 20,332	

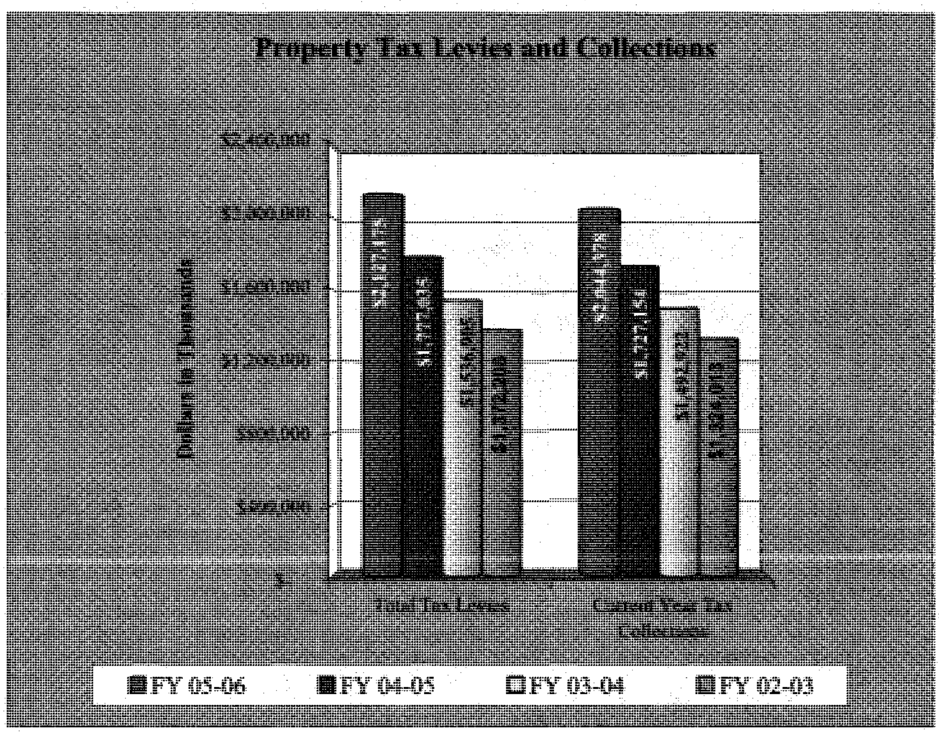
Note: P.G.C.C. = Pardee Grossman Cottonwood Canyon

Source: Treasurer-Tax Collector, County of Riverside

Table 10

County of Riverside
Property Tax Levies and Collections
Last Four Fiscal Years
(Amounts expressed in thousands)

		Collected within the Fiscal Year of the Levy			Total Collections as of 6/30	
Fiscal Year	**Total Secured Tax Levy for Fiscal Year**	**Amount**	**Percentage of Levy**	**Delinquent Tax Collections**	**Amount**	**Percentage of Levy**
2006	$ 2,127,175	$ 2,044,378	96.11%	$ 66,977	$ 2,111,356	99.26%
2005	1,777,035	1,727,154	97.19%	61,220	1,788,374	100.64%
2004	1,536,905	1,492,922	97.14%	67,284	1,560,206	101.52%
2003	1,372,208	1,324,013	96.49%	53,120	1,377,133	100.36%

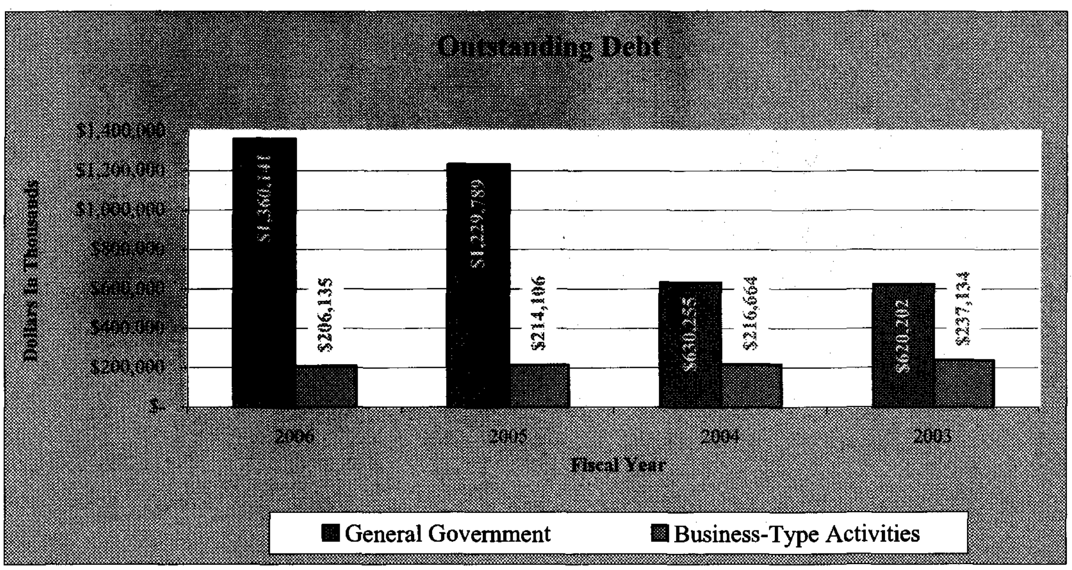


Source: Auditor-Controller, County of Riverside

Table 11

County of Riverside
Ratios of Outstanding Debt by Type
Last Four Fiscal Years
(Amounts expressed in thousands, except per capita amount)

	Fiscal Year			
	2006	2005	2004	2003
General Government				
Bonds	$ 814,443	$ 678,028	$ 91,758	$ 91,758
Certificates of Participation	348,486	325,572	387,869	357,855
Note and Loans	113,383	150,344	67,010	68,060
Capital Leases	83,829	75,845	83,618	102,529
Business-Type Activities				
Bonds	191,142	200,555	210,558	228,392
Certificates of Participation	-	1,040	2,040	3,000
Capital Leases	14,993	12,511	4,066	5,742
Total Primary Government	$ 1,566,276	$ 1,443,895	$ 846,919	$ 857,336
Percentage of Personal Income	2.94%	2.92%	1.88%	2.01%
Per Capita	$ 807	$ 769	$ 477	$ 499



Note: Per Capita for 2006 is an estimate

Source: California State Department of Finance and Auditor-Controller, County of Riverside

Table 12

County of Riverside
Ratios of General Bonded Debt Outstanding
Last Four Fiscal Years
(Amounts expressed in thousands, except per capita amount)

	Fiscal Year			
	2006	**2005**	**2004**	**2003**
Bonds	$ 814,443	$ 678,028	$ 91,758	$ 91,758
Less:				
Amounts Available in Debt Service Fund	211,249	61,941	72,798	133,049
Total Net Obligation Bonds Outstanding	$ 603,194	$ 616,087	$ 18,960	$ (41,291)
Percentage of Estimated Actual Taxable Value of Property	0.22%	0.32%	0.46%	0.44%
Per Capita	$ 311	$ 328	$ 11	$ (24)

Note: Details regarding the county's outstanding debt can be found in the notes to the basic financial statements

Source: California State Department of Finance

Table 13

County of Riverside
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006
(Amounts expressed in thousands)

Governmental Unit	Debt Outstanding	Estimated Applicable Percentage	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes: County	$ 6,328,657	83.77%	$ 5,301,286
Subtotal, Overlapping Debt			5,301,286
County of Riverside Direct Debt			1,027,371
Total Direct and Overlapping Debt			$ 6,328,657

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the county. This schedule estimates the portion of the outstanding debt of those overlapping governments that is born by the residents and businesses of the County of Riverside. This process resognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden born by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.

Table 14

County of Riverside
Legal Debt Margin Information
Last Four Fiscal Years
(Amounts expressed in thousands)

	Fiscal Year			
	2006	2005	2004	2003
Debt Limit*	$ 2,125,832	$ 1,735,525	$ 1,511,307	$ 1,353,391
Total Net Debt Applicable to Limit	(603,194)	(616,087)	(635,290)	(620,202)
Legal Debt Margin**	$ 1,522,638	$ 1,119,438	$ 876,017	$ 733,189
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	29.0%	35.5%	42.0%	45.8%

Legal Debt Margin Calculated for Fiscal Year 2006

Assessed Value	$ 167,993,839
Less: Homeowners Exemptions	2,072,688
Total Assessed Value	170,066,527
Debt Limit (1.25% of Total Assessed Value)	2,125,832
Debt Applicable to Limit:	
General Obligation Bonds	814,443
Less: Amount Set Aside for Repayment of General Obligation Debt	211,249
Total Net Debt Applicable to Limit	603,194
Legal Debt Margin	$ 1,522,638

* Debt limit in the context of the statistical section is the maximum amount of outstanding gross or net debt legally permitted.

** Debt margin in the context of the statistical section is the difference between debt limit and existing debt.

Table 15

County of Riverside
Pledged-Revenue Coverage
Last Four Fiscal Years
(Amounts expressed in thousands)

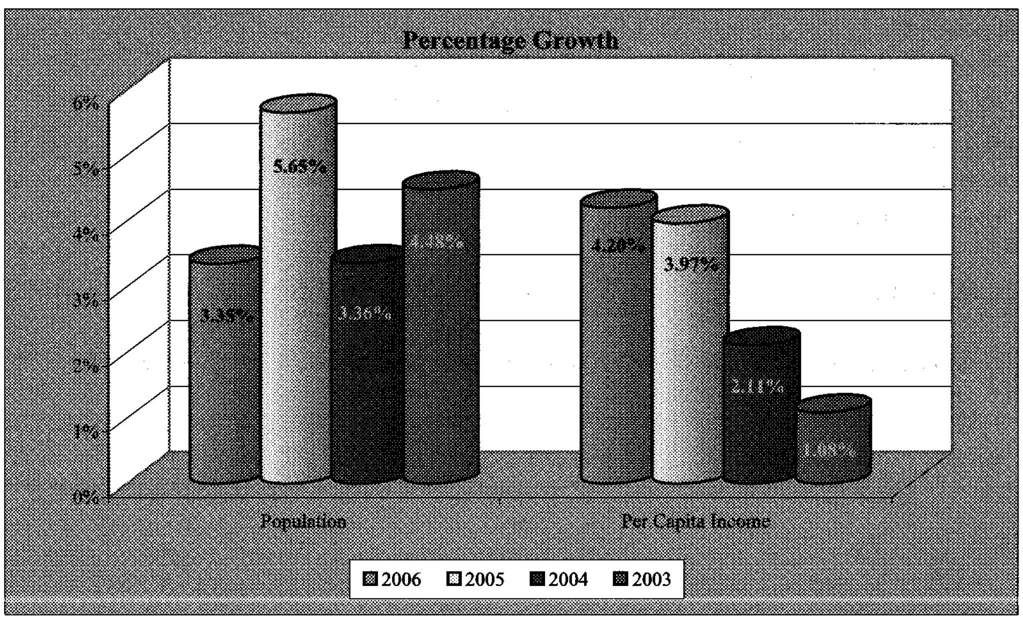
	Lease Revenue Bonds					
Fiscal Year	Revenue from Lease Payments	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2006	$ 25,371	$ 785	$ 24,586	$ 11,600	$ 17,355	0.8491
2005	21,601	676	20,925	11,175	17,551	0.7284
2004	20,715	5,586	15,129	9,490	9,418	0.8001
2003	17,008	1,273	15,735	8,300	11,474	0.7957

Note: Details regarding the county's outstanding debt can be found in the notes to the basic financial statements.

Source: Auditor-Controller, County of Riverside

County of Riverside
Demographic and Economic Statistics
Last Four Fiscal Years

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level in Years of Schooling	School Enrollment	Unemployment Rate
2006	1,939,814	$53,246,505 [1]	$27,449 [1]	33 [2]	12.2 [2]	394,687	5.10%
2005	1,877,000	49,443,185	26,342	33 [2]	12.2 [2]	380,267	5.20%
2004	1,776,700	45,016,790	25,337	33 [2]	12.2 [2]	364,857	5.80%
2003	1,719,000	42,655,266	24,814	33 [2]	12.2 [2]	349,607	6.20%



Notes: Projection based on 13 year running average
Median age and education level based on census 2000

Sources: U.S. Department of Commerce
California State Department of Finance
Riverside County Superintendent of Schools
State of California, Employment Development Department
State Department of Commerce and Labor
Riverside County Progressive Report

Table 17

County of Riverside
Principal Employers
Last Four Fiscal Years

	Fiscal Year							
	2006		2005		2004		2003	
Employer - Commercial	Employees	% of Total County Employment	Employees	% of Total County Employment	Employees	% of Total County Employment	Employees	% of Total County Employment
Stater Brothers	6,000	0.74%	5,600	0.70%	5,600	0.73%	5,600	0.77%
Pechanga Resort & Casino	4,600	0.57%						
Kaiser Permanente	3,025	0.37%	2,893	0.36%	2,893	0.38%	2,893	0.40%
Guidant Corp.	3,000	0.37%						
Morongo Casino, Resort & Spa	2,500	0.31%						
Fleetwood Enterprises Inc.	2,452	0.30%	2,386	0.30%	2,125	0.28%	2,125	0.29%
Riverside Community Hospital	1,511	0.19%	1,641	0.20%	1,641	0.21%	1,641	0.23%
La Quinta Resort & Club	1,450	0.18%						
Corona Regional Medical Center	1,011	0.12%						
The Press Enterprise Co.	972	0.12%	1,168	0.15%				
Eisenhower Medical Center			1,972	0.25%	1,972	0.26%	1,972	0.27%
Valley Health System			1,756	0.22%	1,756	0.23%	1,756	0.24%
KSL Desert Resorts Inc.			1,600	0.20%	1,600	0.21%	1,600	0.22%
Ralph's Grocery Co.			1,500	0.19%				
Desert Regional Medical Center					1,500	0.19%	1,500	0.21%
Vons					1,500	0.19%	1,500	0.21%
SBC Communications Inc.			1,100	0.14%	1,100	0.14%	1,100	0.15%

Note: Only the top ten employers that provided data to the Business Press annual census are listed for each year.

Source: The Business Press, Riverside, California

Table 17

County of Riverside
Principal Employers
Last Four Fiscal Years

Employer - Public*	2006 Employees	2006 % of Total County Employment	2005 Employees	2005 % of Total County Employment	2004 Employees	2004 % of Total County Employment	2003 Employees	2003 % of Total County Employment
The County of Riverside	18,035	2.22%	16,907	2.11%	17,124	2.22%	16,926	2.33%
University of California Riverside	6,856	0.84%					9,822	1.35%
March Air Reserve Base	3,901	0.48%						
Riverside Unified School District	3,869	0.48%	4,000	0.50%	4,000	0.52%	3,906	0.54%
Temecula Valley USD	2,651	0.33%			2,145	0.28%	1,888	0.26%
Hemet USD	2,473	0.30%					2,000	0.28%
City of Riverside	2,470	0.30%	2,690	0.34%			2,600	0.36%
Riverside Community College	2,356	0.29%	3,350	0.42%	3,350	0.43%	3,350	0.46%
Alvord USD	2,000	0.25%	1,669	0.21%				
Riverside County OoE	2,000	0.25%	1,856	0.23%	1,790	0.23%		
Jurupa USD			1,794	0.22%	1,794	0.23%		
Coachella USD			1,500	0.19%				
Perris Union High School Dist.			542	0.07%				
State Dept. of Transportation			250	0.03%				
Corona-Norco USD					5,000	0.65%	4,800	0.66%
Moreno Valley USD					3,162	0.41%	2,836	0.39%
Desert Sands USD					2,184	0.28%		
Lake Elsinore USD					1,950	0.25%		
Murrieta Valley USD							2,305	0.32%

Note: Only the top ten employers that provided data to the Business Press annual census are listed for each year.

* USD denotes Unified School District and OoE denotes Office of Education

Source: The Business Press, Riverside, California

Table 18

County of Riverside
Full-time Equivalent County Government Employees by Function/Program
Last Four Fiscal Years

	Full-time Equivalent Employees			
Function/Program	**2006**	**2005**	**2004**	**2003**
General government				
Legislative and Administrative	93	87	92	93
Finance	445	424	445	449
Counsel	58	52	50	50
Personnel	179	160	153	144
Elections	31	34	36	39
Communication	-	-	11	10
Property Management	323	305	312	306
Promotion	142	126	121	110
Other General	-	1	1	1
Public Protection				
Judicial	1,204	1,150	1,213	1,260
Police Protection	2,113	1,926	1,914	1,902
Detention and Correction	1,811	1,748	1,803	1,832
Fire Protection	145	126	135	122
Protection/Inspection	254	233	216	206
Other Protection	523	441	446	419
Administration	39	36	37	35
Public Ways and Facilities				
Public Ways	497	488	491	476
Health and Sanitation				
Health	1,939	1,862	1,901	1,929
Hospital Care	28	30	32	31
California Children's Services	152	143	127	119
Public Assistance				
Aid programs	2,841	2,796	2,744	2,720
Veterans' Services	11	10	10	11
Other Assistance	283	309	338	452
Education, Recreation and Culture				
Library Services	1	1	1	1
Agricultural Extension	5	4	4	5
Cultural Services	2	2	2	-
County Business-Type Functions				
Hospital Care	1,680	1,589	1,526	1,538
Sanitation	158	149	130	94
Internal Service	2,538	2,147	2,305	2,058
Special Districts	540	528	528	514
Total	18,035	16,907	17,124	16,926

Source: County of Riverside

Table 19

County of Riverside
Operating Indicators by Function
Last Four Fiscal Years

Function/Program	Fiscal Year 2006	2005	2004	2003
Sheriff				
Number of Bookings	56,926	55,375	52,497	49,617
Coroner Case Load	8,943	8,558	7,826	7,772
Calls for Services - Unincorporated Areas	250,000	240,182	219,145	206,122
Fire				
Medical Assistance	86,129	80,484	76,601	70,851
Fires Extinguished	5,060	14,696	14,816	14,714
Other Services	19,035	10,870	10,786	10,689
Communities Served	78	78	78	78
Probation				
Adults on Probation (avg. monthly)	16,051	13,937	13,282	11,618
Juveniles in Secure Detention (avg. daily)	322	310	367	355
Juveniles in Treatment Facilities (avg. daily)	113	98	107	98
Juveniles in Detention Facilities (avg. monthly)	13,218	12,405	14,435	13,708
Waste Management				
Landfill Tonnage	1,423,469	1,328,935	1,231,767	1,148,312
Recycling Tonnage	3,758	2,619	2,850	2,066
County Library				
Total Circulation - books	2,051,276	2,324,539	2,222,575	2,293,424
Reference Questions Answered	454,590	430,226	423,925	461,598
Patrons	2,433,646	2,226,360	1,447,505	1,621,147
Programs Offered	2,353	2,274	3,759	3,588
Program Attendance	84,994	45,605	68,437	61,921
Assessor-Clerk-Recorder				
Assessments	896,998	859,413	831,610	791,348
Official Records Recorded	1,082,688	1,039,166	1,019,271	794,257
Vital Records Copies Issued	82,015	73,379	68,892	70,071
Official Records Copies Issued	35,691	36,480	36,231	33,506
County Regional Medical Center				
Emergency Room Treatments	73,448	68,105	66,411	66,136
Clinic Visits	106,943	109,568	113,171	118,477
Admissions	22,262	21,723	20,587	19,690
Patient Days	105,203	96,820	92,643	91,114
Discharges	22,244	21,741	20,554	19,705
Community Health Agency				
Facilities Inspections	32,000	40,642	38,105	36,546
Patient Visits	123,843	135,539	125,936	123,230
Patient Services	369,041	339,095	376,534	336,909
Animal Impounds	29,206	20,467	21,307	21,661
Spays and Neuters	5,806	2,401	3,080	2,372

Table 19

County of Riverside
Operating Indicators by Function
Last Four Fiscal Years

Function/Program		Fiscal Year 2006	2005	2004	2003
Public Social Services					
	CalWORKs Clients	19,880	20,846	20,296	19,908
	Food Stamp Clients	28,749	27,992	24,796	23,026
	Medi-Cal Clients	108,887	110,994	105,598	99,332
	In-Home Support Services	12,590	12,171	11,314	10,201
	Foster Care Placements	5,175	5,088	4,418	4,215
	Child Welfare Services	11,639	11,153	9,411	10,467
Community Action Partnership					
	Utility Assistance (households)	10,944	11,783	12,846	14,706
	Weatherization (households)	801	795	711	857
	Energy Education Attendees	10,389	11,508	1,953	37,445 c
	Disaster Relief (residents)	8,605	1,514	- b	- b
	Income Tax Returns Prepared	2,651	- a	- b	- b
	After School Programs (students)	537	51	271	51
	Homeless Program (bed nights)	31,328	40,245	30,316	63,703
	Homeless Program (meals)	142,578	372,048	170,937	453,238
	Leadership Program Enrollment	113	11	- b	- b
Registrar of Voters					
	Voting Precincts	976	2,012	1,574	2,087
	Polling Places	486	1,090	815	1,136
	Voters	934,940	1,481,719	1,302,252	1,335,785
	Poll Workers	1,908	4,675	3,306	4,668
Agricultural Commissioner					
	Export Phytosanitary Certificates	21,746	20,037	14,692	- b
	Pesticide Use Inspections	1,199	1,105	1,366	- b
	Weights and Measures Regulated	118,064	112,249	102,780	- b
	Agriculture Quality Inspections	541	1,067	1,251	- b
	Plant Pest Inspections	4,975	5,933	6,296	- b
	Nursery Acreage Inspected	7,382	7,431	5,355	- b

Notes: a & b - Program not yet started / not tracked
c - Number of pamphlets mailed

Phytosanitary = Plant pest cleanliness
Pesticide Use Inspections = Environmental monitoring

Source: County of Riverside

Table 20

County of Riverside
Capital Asset Statistics by Function
Last Four Fiscal Years

Function/Program	Fiscal Year 2006	2005	2004	2003
Sheriff				
Patrol Stations	10	10	10	10
Patrol Vehicles	598	583	576	550
Fire				
Stations	48	48	48	48
Trucks	135	125	126	117
Waste Management				
Landfills	7	7	8	8
Capacity in Tons	52,392,284	50,948,302	50,872,281	42,712,387
Parks and Recreation				
Regional Parks	13	13	13	13
Historic Sites	6	6	6	6
Nature Centers	5	5	5	5
Archaeological Sites	7	7	7	7
Wildlife Reserves	16	16	16	16
County Libraries				
Branch Libraries	29	29	28	27
Book Mobiles	2	2	2	2
Books in Collection	1,221,744	1,477,670	1,098,082	1,029,424
County Regional Medical Center				
Major Clinics	4	4	4	4
Routine and Specialty Clinics	30	30	30	30
Beds Licensed	439	439	439	439

Source: Various County Departments

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APPENDIX C

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

The following are summaries of certain provisions contained in the Trust Agreement, the Sublease, the Site Lease and the Assignment Agreement that are not summarized elsewhere in this Official Statement. For a summary description of the 2007 Certificates, see "THE CERTIFICATES," "THE 2007 SERIES A CERTIFICATES (FIXED RATE CERTIFICATES)" and "THE 2007 SERIES B CERTIFICATES (AUCTION RATE CERTIFICATES)." These summaries do not purport to be comprehensive, and reference should be made to said documents, copies of which may be obtained from the Trustee, for the complete text thereof.

TRUST AGREEMENT

APPOINTMENT OF TRUSTEE

The Trustee is appointed, and the Trustee accepts the appointment, to, among other things, receive, hold and disburse the money paid to it, to execute and deliver the Certificates and apply and disburse payments received pursuant to the Sublease to Owners of the Certificates.

DEFINITIONS

The following terms have the indicated definitions in the Trust Agreement:

"Additional Certificates" means any additional certificates of participation executed and delivered pursuant to Section 6.04 of the Trust Agreement.

"Additional Rental" means the amounts specified as such in Section 3.1(b) of the Sublease.

"Administrative Expense Fund" means the fund by that name established pursuant to Section 3.03 of the Trust Agreement.

"Assignment Agreement" means the Assignment Agreement (Public Safety Communication and Refunding Projects 2007 Series A and 2007 Series B) dated as of the date of the Trust Agreement, between the Corporation and the Trustee.

"Auction" has the meaning set forth in Appendix A hereto.

"Auction Agent" has the meaning set forth in Appendix A hereto.

"Auction Agreement" has the meaning set forth in Appendix A hereto.

"Auction Period" has the meaning set forth in Appendix A hereto.

"Auction Period Rate" has the meaning set forth in Appendix A hereto.

"Auction Rate" has the meaning set forth in Appendix A hereto.

"Auction Rate Certificates" means the 2007 Series B Certificates bearing interest at an Auction Period Rate.

"Auction Rate Certificates Monthly Base Rental" means the Base Rental payments in support of the Auction Rate Certificates made by the County pursuant to Section 3.1(a)(i) of the Sublease.

"Auction Rate Mode" has the meaning set forth in Appendix A hereto.

"Authorized Denominations" means, with respect to the Fixed Rate Certificates, $5,000 and any integral multiple thereof, and with respect to the Auction Rate Certificates, $25,000 and any integral multiple thereof.

"Base Rental" means the amounts specified as such in Section 3.1(a) of the Sublease.

"Base Rental Account" means the account by that name established within the Certificate Fund pursuant to Section 3.04 of the Trust Agreement.

"Broker-Dealer" has the meaning set forth in Appendix A hereto.

"Broker-Dealer Agreement" has the meaning set forth in Appendix A hereto.

"Business Day" means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law to be closed for commercial banking purposes in the State of California or the Sate of New York.

"Certificate Fund" means the fund by that name established pursuant to Section 3.04 of the Trust Agreement.

"Certificate Insurance Policy" means, with respect to the 2007 Certificates, the financial guaranty insurance policy issued by Ambac Assurance Corporation insuring the payment when due of the principal of and interest with respect to the Insured Certificates as provided therein, or any other insurance policy issued with respect to any other Certificates, guaranteeing the scheduled payment of principal of and interest with respect to such Certificates when due.

"Certificate Insurer" means, with respect to the 2007 Certificates, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation, or any successor thereto or assignee thereof and, with respect to any other Certificates, means the issuer of the Certificate Insurance Policy guaranteeing payment with respect to such Certificates, or any successor thereto or assignee thereof.

"Certificate of Completion" means a notice filed with the Trustee by the County Representative stating with respect to the Project, either (i) that the Project is ready for beneficial use or occupancy by the County or that the County has expended all amounts available in the Construction and Acquisition Account with respect to the Project, or (ii) that all of the items to be purchased by the County with respect to the Project have been delivered to and accepted by the County or that the County has expended all amounts available in the Construction and Acquisition Account with respect to the Project.

"Certificate Register" means the books referred to in Section 2.08 of the Trust Agreement.

"Certificates" means the 2007 Certificates and all Additional Certificates.

"Closing Date" means, with respect to the 2007 Certificates, August __, 2007.

"Code" means the Internal Revenue Code of 1986, as amended.

"Completion Date" means the date by which the Trustee shall have received the Certificate of Completion with respect to the Project.

"Construction and Acquisition Account" means the account established within the Construction and Acquisition Fund pursuant to Section 3.02(c) of the Trust Agreement.

"Construction and Acquisition Fund" means the fund by that name established pursuant to Section 3.02 of the Trust Agreement.

"Continuing Disclosure Certificate" means, with respect to the 2007 Certificates, that certain Continuing Disclosure Certificate, dated as August 1, 2007, executed by the County, as it may from time to time be amended or supplemented.

"Conversion" means any conversion of 2007 Series B Certificates from Auction Rate Certificates to Fixed Rate Certificates, which may be made from time to time in accordance with the terms of Section 2.12 of the Trust Agreement.

"Conversion Date" means the date any Conversion of 2007 Series B Certificates becomes effective in accordance with Section 2.12 of the Trust Agreement (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur).

"Conversion Notice" shall have the meaning set forth in Section 2.12(b) of the Trust Agreement.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement, the Auction Agreement, the Broker-Dealer Agreement, the Certificates and the official statement pertaining to the Certificates; Rating Agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to execution and delivery of the Certificates; any computer and other expenses incurred in connection with the Certificates; any financial advisory fees; the initial fees and expenses of the Trustee and any paying agent (including without limitation, origination fees and first annual fees payable in advance); and any other fees and expenses incurred in connection with the execution and delivery of the Certificates or the implementation of the financing for the Project, to the extent such fees and expenses are approved by the County.

"Costs of Issuance Account" means the account by that name established within the Construction and Acquisition Fund pursuant to Section 3.02(a) of the Trust Agreement.

"County Representative" means the County Executive Officer of the County, the Finance Director of the County, the Assistant County Executive Officer of the County or another official designated by any such officer and authorized to act on behalf of the County under or with respect to the Trust Agreement and all other agreements related thereto.

"Current Interest Certificates" means Certificates the interest rate on which is fixed on the date of execution and delivery of such Certificates at a single numerical rate for the entire term of the Certificates and which pay interest semiannually to the Owners thereof excluding the first payment of interest thereon.

"Defeasance Opinion" has the meaning given that term in Section 10.01 of the Trust Agreement.

"DTC" has the meaning given that term in Section 2.11(a) of the Trust Agreement.

"Earnings Fund" means the fund established under, and held by the Trustee pursuant to, Section 3.06 of the Trust Agreement.

"Electronic Means" means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"Excess Earnings Account" means the account by that name established within the Earnings Fund pursuant to Section 3.06 of the Trust Agreement.

"Federal Securities" means the securities described in subsections (2) and (3) of the definition of "Qualified Investments" below.

"Fiscal Year" means the fiscal year of the County, which at the date of the Sublease is the period from July 1 to and including the following June 30.

"Fitch" means Fitch Ratings and its successors and assigns.

"Fixed Rate" means the fixed rates borne by the 2007 Series A Certificates and the fixed rates borne by any 2007 Series B Certificates from the Fixed Rate Conversion Date for such Series of Certificates, which rate shall be established in accordance with Section 2.12 of the Trust Agreement.

"Fixed Rate Certificates" means the 2007 Series A Certificates and any 2007 Series B Certificates following Conversion thereof to Fixed Rate.

"Fixed Rate Computation Date" means any Business Day during the period from and including the date of receipt of a Conversion Notice relating to a Fixed Rate Conversion to and including the Business Day next preceding the proposed Conversion Date.

"Fixed Rate Conversion Date" means the Conversion Date on which the interest rate on any 2007 Series B Certificates shall be converted to a Fixed Rate.

"Fixed Rate Period" means, with respect to the 2007 Series A Certificates, the period from and including the Closing Date to and including their maturity date or earlier date of prepayment and, with respect to the 2007 Series B Certificates, the period from and including the Fixed Rate Conversion Date of any 2007 Series B Certificates to and including their maturity date or earlier date of prepayment.

"Flexible Auction Period" has the meaning set forth in Appendix A hereto.

"Independent Counsel" means an attorney or firm of attorneys of recognized national standing in the field of municipal finance selected by the County.

"Insurance Trustee" has the meaning given that term in Section 3.18 of the Trust Agreement.

"Insured Certificates" means, with respect to the 2007 Certificates, the 2007 Certificates maturing on November 1 in the years 2010 through and including 2017 and 2021.

"Interest Account" means the account by that name established within the Certificate Fund pursuant to Section 3.04 of the Trust Agreement.

"Interest Payment Date" means, with respect to Fixed Rate Certificates, May 1 and November 1 in each year, commencing November 1, 2008, until the maturity or earlier prepayment date of the such Fixed Rate Certificates, and with respect to Auction Rate Certificates, on the dates set forth in Appendix A hereto until the earlier of Conversion to a Fixed Rate, prepayment or maturity of such Auction Rate Certificates.

"Investment Earnings" means the investment earnings received in respect of money on deposit in any fund or account established pursuant to the Trust Agreement.

"Investment Earnings Account" means the account by that name established within the Earnings Fund pursuant to Section 3.06 of the Trust Agreement.

"Lease Year" means the period from each November 1 to and including the following October 31, during the term of the Sublease, except for the first Lease Year which will be from the Closing Date to and including October 31, 2007.

"Leased Premises" means, collectively, the real property, buildings and improvements, and equipment described in Exhibit A to the Sublease.

"Maximum Interest Rate" means twelve percent (12%) per annum.

"Maximum Rate" has the meaning set forth in Appendix A hereto.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

"Municipal Obligations" means bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long term rating categories assigned by such Rating Agencies.

"Nonarbitrage Certificate" means, with respect to the Certificates, the Tax and Nonarbitrage Certificate executed by the County on the date of execution and delivery of the Certificates, as such Nonarbitrage Certificate may be amended from time to time pursuant to the Trust Agreement.

"Outstanding" when used as of any particular time with respect to the Certificates, means all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except: (1) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount shall have theretofore been deposited with the Trustee in accordance with the Trust Agreement (whether on or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (3) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" means the registered owner, as indicated in the Certificate Register, of any Certificate.

"Payment Date", with respect to the Certificates, has the meaning given that term in Section 3.18 of the Trust Agreement.

"Prepayment Account" means the account by that name established within the Certificate Fund pursuant to Section 3.04 of the Trust Agreement.

"Prepayment Notice" has the meaning given that term in Section 4.03 the Trust Agreement.

"Principal Account" means the account by that name established within the Certificate Fund pursuant to Section 3.04 the Trust Agreement.

"Project" means, with respect to the 2007 Certificates, the Public Safety Emergency Communication System identified in Exhibit D of the Trust Agreement and any capital improvement that may be substituted for or added to the Project in accordance with the terms established therein.

"Project Costs" means, with respect to the 2007 Certificates, as applicable, (i) the costs of the acquisition and financing of the Project, and shall, subject to the proviso below, include, without limitation, the cost of any taxes or assessments paid or to be paid in connection with the transfer of any property; the cost of any indemnity and surety bonds; and such other costs, whether or not specified herein, as may be necessary or incidental to the acquisition and financing of the Project and the placing of the same in operation and subsequent to the placing of the same in operation; provided, however, that Project Costs shall include only those costs that the County, if it paid federal income taxes, would, pursuant to the Code, be (x) required to charge to a capital account, or (y) permitted to elect to charge to a capital account instead of deducting from income and (ii) the contract price paid or to be paid for completion of the acquisition, construction, installation or delivery of the Project and related equipment and land, and shall include reimbursement to the County for any eligible payments made by the County prior to or subsequent to the execution of the Trust Agreement. Project Costs shall also include, if applicable, the cost of site preparation necessary for the construction and installation of the Project, as well as administrative, engineering, legal, financial and other costs incurred in connection with the acquisition, construction, installation, delivery and financing of the Project.

"Qualified Investments" means, if and to the extent permitted by law:

A. The following obligations are Qualified Investments for all purposes, including defeasance investments in refunding escrow accounts.

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding 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).

B. The following Obligations are Qualified Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by the Certificate Insurer

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(8) Investment Agreements approved in writing by the Certificate Insurer (supported by appropriate opinions of counsel); and

(9) Other forms of investments (including repurchase agreements) approved in writing by the Certificate Insurer.

C. The value of the above investments shall be determined as follows:

a) For the purpose of determining the amount in any fund, all Qualified Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.

b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus. accrued interest thereon.

c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer, the Trustee, and the Certificate Insurer.

"Qualified Tax-Exempt Obligations" means Municipal Obligations the interest on which is (i) excluded from gross income for federal income tax purposes and (ii) is not a specific tax preference item for purposes of the federal alternative minimum tax.

"Rating Agencies" means, collectively, Fitch, Moody's and S&P, and, if any such Rating Agency shall for any reason no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the County. Unless the contexts dictates otherwise, whenever rating categories of any Rating Agency are specified in the Trust Agreement, such categories shall be irrespective of gradations within a category.

"Rebatable Arbitrage" shall have the meaning given such term in the Nonarbitrage Certificate.

"Record Date" means, with respect to Fixed Rate Certificates, the fifteenth day of each month immediately preceding a month in which an Interest Payment Date occurs, and with respect to Auction Rate Certificates, the Business Day immediately preceding the Interest Payment Date.

"Representation Letter" has the meaning given that term in Section 2.11(a) of the Trust Agreement.

"Reserve Fund" means the fund established pursuant to Section 3.05 of the Trust Agreement.

"Reserve Fund Credit Policy" means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Trustee pursuant to Section 3.05 of the Trust Agreement.

"Reserve Requirement" means, subject to the provisions of the Trust Agreement permitting deposit of a Reserve Fund Credit Policy, as of any date of calculation, the least of (i) 10% of the principal amount of the Certificates Outstanding, (ii) the maximum Base Rental payable by the County in any Lease Year between such date and the expiration of the Sublease, and (iii) 125% of the average annual Base Rental on the Certificates Outstanding.

"S&P" means Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc., and its successors and assigns.

"Security Deposit" means the deposits pursuant to Section 3.1 (a)(i) of the Sublease and Sections 3.01(b) and 3.04(a) of the Trust Agreement into the 2007 Series B Security Deposit Subaccount of the 2007 Series Subaccount of the Base Rental Account of the Certificate Fund made by the County on the Closing Date and each Base Rental payment date with respect to Auction Rate Certificates in an amount equal to 31 days of interest with respect to the 2007 Series B Certificates at the Maximum Interest Rate.

"Site Lease" means the Site and Facilities Lease (Public Safety Communication and Refunding Projects 2007 Series A and 2007 Series B), dated as of the date of the Trust Agreement, between the County and the Corporation with respect to the Leased Premises, including any amendments or supplements thereto.

"Special Account" means the account established by the Trustee pursuant to Section 3.10 of the Trust Agreement for the purposes described therein.

"State" means the State of California.

"Sublease" means the Sublease and Option to Purchase (Public Safety Communication and Refunding Projects 2007 Series A and 2007 Series B), dated as of the date of the Trust Agreement, between the Corporation and the County with respect to the Leased Premises, including any amendments or supplements thereto.

"2007 Certificates" means, collectively, the 2007 Series A Certificates and the 2007 Series B Certificates.

"2007 Series A Certificates" means the County of Riverside Certificates of Participation, 2007 Series A (Public Safety Communication and Refunding Projects) executed and delivered by the Trustee pursuant to the Trust Agreement.

"2007 Series Account of the Administrative Expense Fund" means the account by that name established pursuant to Section 3.03 of the Trust Agreement.

"2007 Series B Certificates" means the County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) executed and delivered by the Trustee pursuant to the Trust Agreement.

"2007 Series B Security Deposit Subaccount" means the Subaccount of that name established within the Series 2007 Base Rental Subaccount of the Base Rental Account of the Certificate Fund pursuant to Section 3.04(a) of the Trust Agreement.

"2007 Series Subaccount of the Construction and Acquisition Account" means the subaccount of that name established within the Construction and Acquisition Fund pursuant to Section 3.02(b) of the Trust Agreement.

"2007 Series Subaccount of the Costs of Issuance Account" means the subaccount of that name established within the Construction and Acquisition Fund pursuant to Section 3.02(a) of the Trust Agreement.

"Trust Agreement" means the Trust Agreement (Public Safety Communication and Refunding Projects 2007 Series A and 2007 Series B), by and among the County, the Corporation and the Trustee, including any amendments or supplements thereto.

"Trustee" means the Trustee acting in its capacity as such under the Trust Agreement or any successor appointed as therein provided.

FUNDS AND ACCOUNTS

Establishment and Application of Construction and Acquisition Fund. There is established in trust a special fund designated the "Construction and Acquisition Fund," which will be held by the Trustee. Within the Construction and Acquisition Fund, the Trustee will establish a Costs of Issuance Account and a Construction and Acquisition Account.

Costs of Issuance Account. The Trustee will disburse monies from the Costs of Issuance Account on such dates and in such amounts as are necessary to pay Costs of Issuance related to the Certificates. Any amounts remaining in the Costs of Issuance Account on the earlier of (i) the date on which the County has notified the Trustee in writing that all Costs of Issuance with respect to the Certificates have been paid, and (ii) the 180th day after the Closing Date, will be transferred to the Construction and Acquisition Account.

Construction and Acquisition Account. The Trustee will from time to time disburse monies from the Construction and Acquisition Account to pay Project Costs. Amounts on hand in the Construction and Acquisition Account may also be disbursed to pay Costs of Issuance.

Following payment by the Trustee of all written requests and delivery to the Trustee of a Certificate of Completion with respect to the Project, any monies remaining in the Construction and Acquisition Account will be transferred, first, to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, to either of the following accounts in such amounts as the County directs: (i) to the Base Rental Account, to the extent permitted by the applicable Nonarbitrage Certificate, to be used to pay interest with respect to the Certificates; and (ii) to the Prepayment Account to prepay Certificates.

Establishment and Application of Administrative Expense Fund. There is established in trust a special fund designated the "Administrative Expense Fund," which will be held by the Trustee. The Trustee will disburse money from the Administrative Expense Fund on such dates and in such amounts as are necessary to pay all expenses of the Corporation or the County (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) incidental to the execution and delivery of the Certificates.

Establishment and Application of Certificate Fund. There is established in trust a special fund designated the "Certificate Fund," which will be held by the Trustee until all required Base Rental is paid in full pursuant to the terms of the Sublease, or until such earlier date as there are no Certificates Outstanding. Within the Certificate Fund, the Trustee will establish the Base Rental Account, Interest Account, Principal Account, and Prepayment Account.

(a) Base Rental Account. Base Rental and any proceeds of rental interruption insurance with respect to the Leased Premises received by the Trustee will be deposited in the Base Rental Account. Base Rental in support of Auction Rate Certificates shall be deposited in the 2007 Series B Security Deposit Subaccount, which is created in the Base Rental Account. On each Interest Payment Date with respect to the Certificates, monies in the Base Rental Account (including the 2007 Series B Security Deposit Subaccount with respect to interest in respect of 2007 Series B Certificates) will be transferred to the Interest Account and the Principal Account. Any amounts remaining in the Base Rental Account on an Interest Payment Date with respect to Fixed Rate Certificates after such transfers will be deposited into (i) the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement; (ii) the Interest Account to the extent necessary to make the total amount so deposited equal to the amount of the interest component of the next succeeding Base Rental payment; and (iii) the Principal Account to the extent necessary to make the total amount so deposited equal to the amount of the principal component of the next Base Rental payment which has a principal component. Amounts not required to be so deposited will be remitted to the County. Any delinquent Base Rental payments and any proceeds of rental interruption insurance with respect to the Leased Premises deposited in the Base Rental Account will be applied first to the Interest Account for the immediate payment of interest payments past due and then to the Principal Account for immediate payment of principal payments past due according to the tenor of any 2007 Series Certificate, and then to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement.

(b) Interest Account. The Trustee will transfer from the Base Rental Account to the Interest Account on each Interest Payment Date an amount which, together with monies on deposit in the Interest Account (or to be deposited therein on or prior to such Interest Payment Date), equals the interest then due on such Interest Payment Date with respect to the Certificates. The Trustee will apply such amounts to the payment of interest then due on such Interest Payment Date.

(c) Principal Account. The Trustee will transfer from the Base Rental Account to the Principal Account on each Interest Payment Date an amount which, together with monies on deposit in the Principal Account, equals the principal then due or required to be prepaid on such Interest Payment

Date with respect to the Certificates. The Trustee will apply such amounts to the payment of principle then due on such Interest Payment Date.

(d) Prepayment Account. Any proceeds of insurance (other than rental interruption insurance) or awards in respect of a taking under the power of eminent domain not required to be used for repair, reconstruction or replacement of the Leased Premises, and any other amounts provided for the prepayment of Certificates in accordance with the Trust Agreement, will be deposited by the Trustee in the Prepayment Account. On the scheduled prepayment date, the Trustee will withdraw from the Prepayment Account and pay to the Owners entitled thereto the prepayment price of the Certificates prepaid on such date.

Establishment and Application of Reserve Fund. There is established in trust a special fund designated the "Reserve Fund," which will be held by the Trustee. The Trustee will maintain and administer the Reserve Fund until the Base Rental is paid in full pursuant to the Sublease or until there are no longer any Certificates Outstanding.

If on any Interest Payment Date the amounts in the applicable accounts of the Certificate Fund are less than the principal and interest payments due with respect to the Outstanding Certificates on such date, the Trustee will transfer from the Reserve Fund for credit to the Interest Account and the Principal Account of the Certificate Fund amounts sufficient to make up such deficiencies. Upon the receipt of a written notice of the County, the Trustee will transfer any amounts in the Reserve Fund in excess of the Reserve Requirement first to the Administrative Expense Fund to the extent needed to pay expenses, then to the Base Rental Account or such other account as directed by the County.

At the option of the County, amounts required to be held in a Reserve Fund may be substituted, in whole or in part, by the deposit with the Trustee of a Reserve Fund Credit Policy; provided, however, that (i) prior to the substitution of such Reserve Fund Credit Policy, the Rating Agencies then rating the Certificates will have been notified of such proposed substitution, (ii) the substitution will not result in a downgrading or withdrawal of any rating of the Certificates then in effect by such Rating Agencies and (iii) each Certificate Insurer will have given its prior written consent to such proposed substitution.

So long as a Reserve Fund Credit Policy is in force and effect with respect to the Certificates, any deposits required to be made with respect to the Reserve Fund pursuant to the Trust Agreement will include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy.

Establishment and Application of Earnings Fund. There is established in trust a special fund designated the "Earnings Fund," which will be held by the Trustee. The Earnings Fund will be maintained by the Trustee until the County directs, in writing, that it be closed. The Trustee will establish and maintain within the Earnings Fund the "Investment Earnings Account" and the "Excess Earnings Account." The Trustee will transfer all Investment Earnings on deposit in the funds and accounts (other than the Excess Earnings Account, the Interest Account, and the Principal Account of the Certificate Fund, and the Administrative Expense Fund) to the Investment Earnings Account. All amounts deposited into the Excess Earnings Account and the Investment Earnings Account will be retained in such accounts until transferred in accordance with the direction in writing of the County in accordance with the Nonarbitrage Certificate.

Pursuant to the Nonarbitrage Certificate, the County is required to compute its Rebatable Arbitrage, as such term is defined in the Nonarbitrage Certificate, at least once each year. After any such

Rebatable Arbitrage computation, the County will ascertain whether the amount on deposit in the Excess Earnings Account is at least equal to the Rebatable Arbitrage it has earned. If the amount on deposit in the Excess Earnings Account is less than the Rebatable Arbitrage earned, the Trustee will transfer monies from the Investment Earnings Account to the Excess Earnings Account in accordance with instructions from the County. Prior to the Completion Date, following the computation of Rebatable Arbitrage and, to the extent required, the transfer of Rebatable Arbitrage to the Excess Earnings Account, any amounts remaining in the Investment Earnings Account will be transferred to the Construction and Acquisition Account of the Construction and Acquisition Fund. On and after the Completion Date, following the computation of Rebatable Arbitrage and, to the extent required, the transfer of Rebatable Arbitrage to the Excess Earnings Account, any amounts remaining in the Investment Earnings Account will be transferred to the following funds and accounts in the order of priority indicated: (i) to the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement; (ii) to the Administrative Expense Fund to the extent needed to pay expenses of the Corporation and the County (iii) to the Interest Account to the extent necessary to make the total amount deposited therein equal to the amount of the interest component of the next succeeding Base Rental payment; and (iv) to the Principal Account to the extent necessary to make the total amount deposited therein equal to the amount of the principal component of the next succeeding Base Rental payment which has a principal component.

Any monies deposited in the Excess Earnings Account will be applied to payments of Rebatable Arbitrage to the United States of America in accordance with written instructions of the County, unless the County directs the Trustee in writing that such monies are not needed for such purpose

Surplus. After payment or prepayment of all amounts due with respect to the Certificates (or a defeasance of the Certificates), the payment of all fees and expenses to the Trustee, or satisfactory provision for such payments having been made, and the transfer of any amounts required to be transferred to the Excess Earnings Account in accordance with the Nonarbitrage Certificate, the payment of all amounts due to the Certificate Insurer, any amounts remaining in any of the funds or accounts established under the Trust Agreement with respect to the Certificates and not required for the purposes set forth therein will be remitted to the County; however, in the event of defeasance, amounts will not be remitted to the County until the County has delivered or caused to be delivered to the Trustee an opinion of Independent Counsel to the effect that remission of such amounts to the County will not affect the exclusion from gross income for federal income tax purposes of any Base Rental payment under the Sublease comprising interest with respect to the Certificates.

Additional Rental. In the event the Trustee receives Additional Rental pursuant to the Sublease, such Additional Rental will be applied by the Trustee solely to the payment of any costs in respect of which such Additional Rental was received.

Substitution and Release of Leased Premises. The Leased Premises may be amended, modified, released, transferred, changed or substituted with other properties, in accordance with the Sublease, provided, however, that: (i) such amendment, modification, release, transfer, change or substitution does not, in the opinion of Independent Counsel, adversely affect the tax-exempt status of the Certificates; (ii) the County certifies to the Trustee that (x) the fair rental value of the amended, or substituted Leased Premises is at least equal to the Base Rental attributable to the Leased Premises to be amended, or substituted and (y) that the useful life of the amended, or substituted Leased Premises equals or exceeds the remaining term of the Sublease, or, in the event of a release, that the fair rental value of the Leased Premises remaining following such release is at least equal to the Base Rental each Lease Year to be attributed to such Leased Premises following such release; (iii) the County will provide evidence that title insurance required under the Sublease includes such amended, or substituted Leased Premises, and prior to the release of any portion of the Leased Premises, the County will provide evidence that the existing title insurance required under the Sublease is not affected by such release; (iv) the County has been advised by the Rating Agencies then providing ratings on the Outstanding Certificates, that such amendment, modification, release, change, transfer or substitution will not, in and of itself, result in a reduction of such ratings on the Certificates; and (v) the Certificate Insurer will have provided its prior written consent to such amendment, modification, release, transfer, change or substitution; and provided further, (a) it is the express intent of the County and the Corporation to release the initial Leased Premises from the Site Lease, the Sublease and the Assignment Agreement and to substitute in its place the real and personal property that comprises the Public Safety Communication Project upon completion of said Project, (b) the term of the Sublease and the Base Rental payable thereunder have been determined by reference to the expected useful life and rental value of the Project, and (c) any amendment of the Site Lease, the Sublease or the Assignment Agreement entered into solely to effectuate such substitution will be exempt from the requirements of Section 2.2(d) of the Sublease, Subparts (iv) and (v) of Section 3.09 and Section 6.02 of the Trust Agreement, except that the Certificate Insurer will have provided its prior written consent to such amendment, modification, release, transfer, change or substitution.

Repair or Replacement; Application of Insurance Proceeds and Condemnation Awards. If the Leased Premises, or any portion thereof is stolen, damaged or destroyed, the County will continuously and diligently repair or replace the Leased Premises or such portion thereof, unless the County elects not to. If the Leased Premises or any portion thereof is taken by eminent domain proceedings, the County will take such action as is reasonably necessary to obtain compensation at least equal to the proportionate amount of the Outstanding Certificates related to the Leased Premises or such portion thereof taken.

The Trustee will hold the proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance fund, and of any condemnation award, in a special account designated the "Special Account" and made available for the cost of repair or replacement of the Leased Premises or such portion thereof.

The County will notify in writing the Trustee within 90 days of the receipt by the Trustee of insurance or condemnation proceeds, whether the County intends to replace or repair the Leased Premises or the portion thereof in respect of which such proceeds were received, in which event the County will promptly deposit with the Trustee the full amount of any insurance deductible to be credited to the Special Account. The County will replace or repair the Leased Premises or such portion thereof as required in the Sublease, unless it deposits the full amount of any insurance deductible and any other amounts necessary to prepay the Certificates relating to the Leased Premises or such portion thereof into the Prepayment Account and the Base Rental with respect to the remaining portion of the Leased Premises is sufficient to pay the principal and interest due with respect to the Certificates after the date on which Certificates relating to the Leased Premises or such portion thereof are prepaid. The proceeds of any insurance (other than rental interruption insurance), including the proceeds of any self-insurance fund or of any condemnation award, not applied to repairing or replacing damaged, destroyed or taken property, or in respect of which notice in writing by the County of its intention to apply the same to the work of repairing or replacing the property damaged, destroyed or taken will not have been given to the Trustee within six months after receipt of such proceeds by the Trustee, or which the County will at any time during such period have notified the Trustee in writing are not to be so applied, will forthwith be deposited into the Prepayment Account and applied to the prepayment of Certificates.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Premises will be applied and disbursed by the Trustee upon written direction of the County as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Premises and will not result in an abatement of Base Rental payable by the County under the Sublease, such proceeds will be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Amounts not required to be so deposited will be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Leased Premises has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Base Rental payable by the County under the Sublease, then the Trustee will immediately deposit such proceeds in the Prepayment Account of the Certificate Fund and such proceeds will be applied to the prepayment of Certificates.

Investments Authorized. Subject to certain restrictions contained in the Trust Agreement, money held by the Trustee in any fund or account will be invested by the Trustee in Qualified Investments pending application, subject to the direction of the County, will be registered in the name of the Trustee where applicable, as Trustee, and will be held by the Trustee, where applicable. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, authorized investments. The Trustee may act as agent in the making or disposing of any investment. The Trustee will not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement.

The Trustee will furnish the County periodic cash transaction statements which include details for all investment transactions made by the Trustee.

Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account hereunder, all Qualified Investments will be valued as frequently as deemed necessary by the Certificate Insurer, but not less often than quarterly at the market value of such investments (exclusive of accrued interest). Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value will be restored no later than the succeeding valuation date. The Trustee may sell at the best price obtainable, or present for prepayment, any Qualified Investment so purchased by the Trustee whenever it will be necessary in order to provide monies to meet any required payment, transfer, withdrawal or disbursement from any fund or account hereunder, and the Trustee will not be liable or responsible for any loss resulting from such investment or sale.

Application of Investment Earnings. The Trustee will deposit, as and when received, all Investment Earnings on amounts on deposit in all funds, accounts and subaccounts maintained by it under the Trust Agreement (except the Excess Earnings Account of the Earnings Fund, the Certificate Fund and the Administrative Expense Fund) into the Investment Earnings Account of the Earnings Fund. Following the computation of Rebatable Arbitrage and the transfer of any Rebatable Arbitrage to the Excess Earnings Account pursuant to the Nonarbitrage Certificate and the Trust Agreement, amounts remaining in the Investment Earnings Account will be transferred to the Construction and Acquisition Account prior to completion of the Project, and thereafter to the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement, and then to the Administrative Expense Fund, the Interest Account and Principal Account, respectively, of the Certificate Fund. Earnings on amounts in the Certificate Fund and the Administrative Expense Fund will remain in such Funds and be applied in accordance with the Trust Agreement provisions governing such Funds.

Provisions Relating to Certificate Insurance Policy.

Notwithstanding anything to the contrary set forth in the Trust Agreement:

(a) Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Certificate Insurer may not be amended in any manner which affects the rights of the Certificate Insurer hereunder without the prior written consent of the Certificate Insurer. The Certificate Insurer reserves the right to charge the County a fee for any consent or amendment to the Trust Agreement while the Certificate Insurance Policy is outstanding.

(b) Unless otherwise provided, the Certificate Insurer's consent is required in lieu of Owner consent with respect to the Insured Certificates, when required, for the following purposes: (i) execution and delivery of any supplemental Trust Agreement or any amendment, supplement or change to or modification of the Sublease; (ii) removal of the Trustee and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

(c) Any reorganization or liquidation plan with respect to the County must be acceptable to the Certificate Insurer. In the event of any reorganization or liquidation, the Certificate Insurer will have the right to vote on behalf of all Owners who hold Certificate Insurer-insured Certificates absent a default by the Certificate Insurer under the applicable Certificate Insurance Policy insuring such Certificates.

(d) Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined therein, the Certificate Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of Insured Certificates or the Trustee for the benefit of the Owners of the Insured Certificates under the Trust Agreement.

(e) While the Certificate Insurance Policy is in effect, the County will furnish to the Certificate Insurer, upon request, at the County's expense to the attention of the Surveillance Department the following:

(1) a copy of any financial statement, audit and/or annual report of the County;

(2) such additional information it may reasonably request;

(3) a copy of any notice to be given to the registered Owners of the Certificates, including, without limitation, notice of any prepayment or defeasance of Certificates, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Certificates; and

(4) a copy of any notice, report or other filing made or delivered by or on behalf of the County pursuant to the Continuing Disclosure Agreement entered into by the County with respect to the Certificates.

(f) While the Certificate Insurance Policy is in effect, the County shall notify the Certificate Insurer at the County's expense to the attention of the General Counsel's Office:

(1) upon any failure of the County to provide relevant notices, certificates, etc.; and

(2) immediately if any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default hereunder.

(g) The County will permit the Certificate Insurer to discuss the affairs, finances and accounts of the County or any information the Certificate Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the County. The Trustee and the County will permit the Certificate Insurer to have access to the Project and have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

(h) The Certificate Insurer will have the right to direct an accounting at the County's expense, and the County's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Certificate Insurer will be deemed a default under the Trust Agreement; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered Owner of the Certificates.

(i) The County will annually certify to the Certificate Insurer that the insurance policies required by Section 4.3 of the Lease are in full force and effect, and will provide the Certificate Insurer with copies of such policies upon request.

(j) As long as the Certificate Insurance Policy is in full force and effect, the County, the Trustee and any Paying Agent agree to comply with the following provisions:

(1) At least one (1) business day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest with respect to the Insured Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such Funds or Accounts, the Trustee shall so notify the Certificate Insurer. Such notice must specify the amount of the anticipated deficiency, the Insured Certificates to which such deficiency is applicable and whether such Insured Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified the Certificate Insurer at least one (1) business day prior to an Interest Payment Date, the Certificate Insurer will make payments of principal or interest due on the Insured Certificates on or before the first (1st) business day next following the date on which the Certificate Insurer received notice of nonpayment from the Trustee.

(2) The Trustee will, after giving notice to the Certificate Insurer as provided in (1) above, make available to the Certificate Insurer and, at the Certificate Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Certificate Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the County maintained by the Trustee and all records relating to the Funds and Accounts maintained under the Trust Agreement.

(3) The Trustee will provide the Certificate Insurer and the Insurance Trustee with a list of registered owners of Insured Certificates entitled to receive principal or interest payments from the Certificate Insurer under the terms of the Certificate Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Insured Certificates entitled to receive full or partial interest payments from the Certificate Insurer and (ii) to pay principal upon Insured Certificates surrendered to the Insurance Trustee by the registered owners of Insured Certificates entitled to receive full or partial principal payments from the Certificate Insurer.

(4) The Trustee will, at the time it provides notice to the Certificate Insurer pursuant to (1) above, notify registered owners of Insured Certificates entitled to receive the

payment of principal or interest thereon from the Certificate Insurer (i) as to the fact of such entitlement, (ii) that the Certificate Insurer will remit to them all or a part of the interest payments next coming due upon proof of Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Certificate Insurer, they must surrender their Insured Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Insured Certificates to be registered in the name of the Certificate Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Certificate Insurer, they must surrender their Insured Certificates for payment thereon first to the Trustee who shall note on such Insured Certificates the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(5) in the event that the Trustee has notice that any payment of principal of or interest on an Insured Certificate which has become Due for Payment and which is made to a Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee will, at the time the Certificate Insurer is notified pursuant to (1) above, notify all registered Owners of Insured Certificates that in the event that any registered Owner's payment is so recovered, such registered Owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee will furnish to the Certificate Insurer its records evidencing the payments of principal of and interest on the Insured Certificates which have been made by the Trustee and subsequently recovered from registered Owners and the dates on which such payments were made.

(6) in addition to those rights granted the Certificate Insurer under the Trust Agreement, the Certificate Insurer will, to the extent it makes payment of principal of or interest with respect to Insured Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Certificate Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Certificate Insurer's rights as subrogee on the registration books of the County maintained by the Trustee upon receipt from the Certificate Insurer of proof of the payment of interest thereon to the registered Owners of the Insured Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Certificate Insurer's rights as subrogee on the registration books of the County maintained by the Trustee upon surrender of the Insured Certificates by the registered owners thereof together with proof of the payment of principal thereof.

(k) The County covenants and agrees to reimburse the Certificate Insurer for any amounts paid under the Certificate Insurance Policy and all costs of collection thereof and enforcement of the Trust Agreement and any other documents executed in connection with the Trust Agreement, together with interest thereon, from the date paid or incurred by the Certificate Insurer until payment thereof in full by the County, payable at the Insurer Payment Rate (as hereinafter defined), including without limitation (to the extent permitted by applicable law) interest on claims paid by the Certificate Insurer in respect of interest on the Certificates. Such payment obligation shall be payable on demand and on a parity with, and from the same sources and secured by the same security as, regularly scheduled principal and interest payments in respect of the Certificates. For purposes of the foregoing, "Insurer Payment

Rate" means the lesser of (a) the maximum rate permissible under applicable usury or similar laws limiting interest rates and (b) the greater of (i) the then applicable highest rate of interest on the Certificates and (ii) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. ("Chase") at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by Chase) plus 3 percent. The Insurer Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that Chase ceases to announce its Prime Rate publicly, Prime Rate will be the publicly announced prime or base lending rate of such national bank as the Certificate Insurer shall specify.

(l) As long as the Surety Bond is in full force and effect, the County, Trustee and Paying Agent, if appropriate, agree to comply with the following provisions:

(1) In the event and to the extent that moneys on deposit in the Certificate Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) day after receipt by the General Counsel of the Certificate Insurer of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Trustee certifying that payment due under the Trust Agreement has not been made to the Trustee; or (ii) the payment date of the Certificates as specified in the Demand for Payment presented by the Trustee to the General Counsel of the Certificate Insurer, the Certificate Insurer will make a deposit of funds in an account with the Trustee or its successor, in New York, New York, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee under the Trust Agreement (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

(2) The Trustee will, after submitting to the Certificate Insurer the Demand for Payment as provided in (1) above, make available to the Certificate Insurer all records relating to the Funds and Accounts maintained under the Trust Agreement.

(3) The Trustee will, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Fund to the extent of moneys received pursuant to such Demand.

(4) The Reserve Fund will be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Base Rental payments; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Base Rental payments.

(m) Notwithstanding anything to the contrary in the Trust Agreement:

(1) The Trustee may be removed at any time, at the request of the Certificate Insurer, for any breach of the Trust set forth herein.

(2) The Certificate Insurer will receive prior written notice of any Trustee resignation.

(3) Every successor Trustee appointed pursuant to this Section must be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $75,000,000 and acceptable to the Certificate Insurer.

(4) In determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Owners as if there were no Certificate Insurance Policy.

(5) Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee may take effect until a successor, acceptable to the Certificate Insurer, is appointed.

(n) To the extent that the Trust Agreement confers upon or gives or grants to the Certificate Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Certificate Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

(o) Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the County, the Trustee, the Certificate Insurer, and the registered Owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the County are for the sole and exclusive benefit of the County, the Trustee, the Certificate Insurer, and the registered Owners of the Certificates.

THE TRUSTEE AND PAYING AGENTS

Removal of Trustee. The County may at any time, when not in default, for good cause shown, or the Owners of a majority in aggregate principal amount of all Certificates then Outstanding may by written request at any time and for any reason, remove the Trustee or any successor thereto, and will thereupon appoint a successor or successors. Any Certificate Insurer may, for any breach of trust by the Trustee and following any event of default, remove the Trustee and any successor thereto, and the County may, subject to the requirements set forth above, appoint a successor thereto. Any removal of the Trustee will become effective upon acceptance of appointment by the successor Trustee.

Resignation of Trustee. The Trustee or any successor may at any time resign by giving written notice to the County and each Certificate Insurer and by giving mailed notice to the Owners of its intention to resign which will be effective upon appointment and acceptance by a successor Trustee as provided in the Trust Agreement.

Protection and Rights of the Trustee. The Trustee will be protected and will incur no liability whatsoever in acting upon or processing any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which the responsible trust officer of the Trustee will believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the

Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry whatsoever as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be liable for any error in judgment made in good faith by a responsible officer of the Trustee, unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

AMENDMENTS

Amendments to Trust Agreement. The Trust Agreement may be amended in writing by agreement among the parties and the consent of each Certificate Insurer, but no such amendment will become effective as to the Owners of Certificates then Outstanding unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners of the Certificates upon the written agreement of the County, the Corporation and the Trustee and the consent of each Certificate Insurer, but only (A) to amend the Project to the extent such amendment does not affect the tax-exempt status of the Certificates and is otherwise in compliance with the conditions specified, or (B) (1) in regard to questions arising under the Trust Agreement which the County, the Corporation and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and which will not adversely affect the interests of the Owners of the Certificates or any Certificate Insurer, (2) to preserve and maintain the exclusion from gross income for federal income tax purposes of that portion of each Base Rental payment designated as and comprising interest, (3) to qualify the Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect, (4) to authorize the execution and delivery of Additional Certificates if the conditions set forth in the Trust Agreement are met or (5) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the Certificates or any Certificate Insurer.

Amendments to Sublease, Site Lease and Assignment Agreement. The Sublease, the Site Lease and the Assignment Agreement may be amended in writing by agreement between the parties thereto, with the consent of the Trustee and each Certificate Insurer and notice to the Rating Agencies, but no such amendment will become effective as to the Owners of Certificates unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Sublease, the Site Lease and the Assignment Agreement and the rights and obligations provided thereby may also be modified or amended at any time with the consent of the Trustee and the consent of each Certificate Insurer but without the consent of any Owners of the Certificates upon the written agreement of the County and the Corporation, but only (1) for the purpose of amending the Leased Premises pursuant to the Sublease, (2) in regard to questions arising under the respective Sublease, the Site Lease or the Assignment Agreement that the County and the Corporation may deem necessary or desirable and not inconsistent with such Sublease, Site Lease or Assignment Agreement and that will not adversely affect the interests of the Owners of the Certificates or any Certificate Insurer, (3) to provide for the authorization of Additional Certificates if the conditions set forth in the Trust Agreement have been met, or (4) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the Certificates or any Certificate Insurer; and provided (i) it is the express intent of the County and the Corporation to release the initial Leased Premises from the Site Lease, the Sublease and the Assignment Agreement and to substitute in its place the real and personal property that comprises the Public Safety Communication Project upon completion of said Project, (ii) the Term of the Sublease and the Base Rental payable thereunder have been determined by reference to the expected useful life and rental value of the Project, and (iii) any amendment of the Site Lease, the Sublease or the Assignment Agreement entered into solely to effectuate such substitution shall be exempt from the requirements of Section 2.2(d) of the Sublease and Sections 3.09 and 6.02 of the Trust Agreement, except the Certificate Insurer will have provided its prior written consent to such amendment.

Additional Certificates. The County may, from time to time, with the prior written consent of the Corporation and each Certificate Insurer, by a supplement or amendment to the Trust Agreement, authorize one or more series of Additional Certificates, secured by Base Rental payments under the Sublease, on a parity with the Outstanding Certificates. The Trustee will execute and deliver the Additional Certificates of any series only upon the receipt by the Trustee of:

(a) A copy of a supplement or amendment to the Trust Agreement authorizing such series of Additional Certificates which will, among other provisions, specify: (i) the authorized principal amount, designation and series of such Additional Certificates, (ii) the purpose for which such Additional Certificates are to be executed and delivered, (iii) the maturity date or dates of such Additional Certificates, (iv) the interest payment dates for and the interest rate or rates payable with respect to the Additional Certificates of such series, (v) the denominations of and the manner of dating and numbering such Additional Certificates, (vi) the prepayment provisions and prepayment dates and prices and any defeasance provisions for such Additional Certificates, (vii) the form of such Additional Certificates, (viii) the establishment of and provisions concerning additional accounts and subaccounts in the funds and accounts held by the Trustee under the Trust Agreement to provide for the payment of principal of, premium, if any, and interest with respect to such Additional Certificates, (ix) the Reserve Requirement immediately following the issuance of such Additional Certificates, and (x) the establishment of and provisions concerning such other funds, accounts and subaccounts as the County and the Corporation will deem necessary or desirable for such Additional Certificates, including, without limitation, construction and acquisition funds, accounts or subaccounts.

(b) A duly executed copy of an amendment to the Sublease such that (i) the Base Rental payable thereunder, as amended, is sufficient to pay all principal of and interest with respect to the Outstanding Certificates and such Additional Certificates and that the Base Rental payable thereunder is not in excess of the fair rental value of the Leased Premises, and (ii) the insurance provisions of the Sublease will provide adequate coverage for any new Leased Premises. Satisfaction of the requirements set forth in clauses (i) and (ii) of the preceding sentence will be evidenced by a written certificate of a County Representative. If appropriate, such amendment will contain any modifications necessary to include additional real property, buildings or improvements in the Leased Premises in connection with the issuance of such Additional Certificates.

(p) Evidence that any amendments to the Sublease, Site Lease or Assignment Agreement executed in connection with such Additional Certificates have been duly recorded in the official records of the County Recorder of the County of Riverside.

(q) If such Additional Certificates are being executed and delivered to finance the construction or acquisition of new additions or improvements to the existing Leased Premises, such written certificate of a County Representative will, in addition to the requirements set forth in subsection (b) above, certify that: (i) the fair rental value of the Leased Premises, without taking into account such new buildings or improvements, is at least equal to the Base Rental payable under the Sublease, as amended, (ii) the fair rental value of the Leased Premises, including any new real property, buildings or improvements which are completed and are available for use and possession by the County and constitute a portion of the Leased Premises under the Sublease, as amended, is at least equal to the Base Rental payable under the Sublease, as amended or (iii) the fair rental value of the Leased Premises, including such new real property, buildings or improvements, when acquired or completed, will be at least equal to the Base Rental payable under the Sublease, as amended, which certificate, in the case of clause (iii), will include a further certification that the County has provided for the deposit of a sufficient amount of capitalized interest to pay interest with respect to such Additional Certificates until such scheduled completion date (which certification may be waived by the Trustee if the Trustee receives evidence satisfactory to it that the payment of such interest has been otherwise provided for).

(r) An opinion or opinions of Independent Counsel substantially to the effect that (i) the supplement or amendment to the Trust Agreement and any amendment to the Sublease, the Site Lease or the Assignment Agreement executed in connection therewith are authorized or permitted by the Constitution and laws of the State and the Trust Agreement and have been duly and validly authorized, executed and delivered by each of the County and the Corporation, as appropriate, and constitute the legally valid and binding obligations of the County and the Corporation, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and subject to such other exceptions as are acceptable to the Trustee, and (ii) the execution and delivery of such Additional Certificates will not adversely affect the exclusion for federal or State income tax purposes of interest with respect to the Certificates or any Additional Certificates previously executed and delivered on a tax-exempt basis.

(s) Written evidence from the Rating Agencies that the execution and delivery of such Additional Certificates will not, by itself, result in a downgrading of the ratings assigned to any Certificates from the ratings in effect immediately prior to such execution and delivery of such Additional Certificates.

EVENTS OF DEFAULT

Events of Default Defined. The following are "events of default" under the Trust Agreement and the terms "events of default" and "default" will mean, whenever they are used in the Trust Agreement, any one or more of the following events:

(a) An event of default will have occurred under the Sublease.

(b) Failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement or Sublease, other than such failure as may constitute an event of default under clause (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the County by the Trustee or the Certificate Insurer or to the County and the Trustee by the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding; provided, however, that if the failure stated in the notice cannot be corrected within such period, then such period will be extended so long as corrective action is instituted by the County within such period and diligently pursued until the default is corrected, but only if such extension (i) would not materially adversely affect the interest of any Owner and (ii) does not exceed a total of 60 days without the prior written consent of each Certificate Insurer.

(c) Failure by the County to perform its obligation to deposit the Base Rental with the Trustee as set forth in the Sublease for a period of 5 days after written notice specifying such failure has been given to the County by the Trustee or a Certificate Insurer.

Notice of Events of Default. In the event the County is in default, the Trustee will give notice of such default to the Owners of the Certificates, the Certificate Insurer and, so long as any Auction Certificates are outstanding, to the Auction Agent and each Broker-Dealer. Such notice will state that the County is in default and will provide a brief description of such default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Owners.

Remedies on Default. Upon the occurrence and continuance of any event of default specified in Section (a) or (c) above, the Trustee (with the consent or at the direction of the Certificate Insurer) will proceed, or upon the occurrence and continuance of any other event of default hereunder, the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding and consent of any Certificate Insurer, will proceed), to exercise the remedies set forth in the Sublease or available to the Trustee in the Trust Agreement.

Collection of Base Rental Payments. The Trustee will take any appropriate action to cause the County to pay any Base Rental payment not paid when due, upon written request and authorization by the Owners of a majority in aggregate principal amount of the Certificates then Outstanding and unpaid, and upon being satisfactorily indemnified against any expense and liability with respect thereto and receiving payment for its fees and expenses.

Action by Owners. In the event the Trustee fails to take any action to eliminate an event of default under the Sublease or under the Trust Agreement, the Owners of a majority in aggregate principal amount of Certificates then Outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Sublease or the Trust Agreement, but only if such Owners will have first made written request of the Trustee after the right to exercise such powers or right of action will have arisen, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee will have been offered security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will have refused or neglected to comply with such request within 90 days.

Application of Proceeds in Event of Default. All payments received by the Trustee with respect to the rental of any portion of the Leased Premises after a default by the County, and all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Sublease, after payments of all fees and expenses of the Trustee, including those of its attorneys and advisors, will be deposited by the Trustee into the Base Rental Account in the Certificate Fund.

LIMITATION OF LIABILITY

No Liability of County for Trustee Performance. The County will not have any obligation or liability to any other party or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement, including the distribution by the Trustee of principal and interest to the Owners of the Certificates.

No Liability of Trustee for Base Rental Payments by County. Except as provided in the Trust Agreement, the Trustee will have no obligation or liability to the Owners of the Certificates with respect to the payment of the Base Rental by the County when due, or with respect to the performance by the County of any other covenant made by it in the Sublease.

No Liability of County Except as Stated. Except for (i) the payment of Base Rental and Additional Rental when due in accordance with the terms of the Sublease, and (ii) the performance by the County of its obligations and duties as set forth in the Sublease, the Site Lease and in the Trust Agreement, the County will have no obligation or liability to the Trustee or the Owners.

Limited Liability of Trustee. The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment quality of the Certificates, for the sufficiency or collection of any Base Rental or for the actions or representations of any other party to the Trust Agreement. The Trustee will have no obligation or liability to any other party or to the Owners with respect to the failure or refusal of any other party to perform any covenant or agreement made by it under the Trust Agreement or the Sublease, but will be responsible solely for the performance of the duties expressly imposed upon it under the Trust Agreement. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct.

Indemnification. To the extent permitted by law, the County indemnifies and saves the Trustee, its officers, directors, agents and employees (collectively, the "Indemnitees") harmless from and against all claims, suits and actions brought against it, or to which it is made a party, and from all losses and damages suffered by it as a result thereof, where and to the extent such claim, suit or action is related to or arises from the Trustee's acceptance and performance of its duties under the Trust Agreement and under the Sublease including where and to the extent such claim arises out of the actions of any other party to the Trust Agreement or the Sublease, including but not limited to the ownership, operation or use of the Project or any portion thereof. Such indemnification will not extend to judgments obtained against the Indemnitees and expenses of litigation in connection therewith based upon the negligence or willful default of the Indemnitees in performing and carrying out the duties specifically imposed upon and to be performed by them pursuant to the Trust Agreement.

Indemnification of the Corporation. The County will indemnify, defend and hold the Corporation free and harmless from and against any and all claims, loss, liability, cost or expense (including reasonable attorneys' fees) arising from or in connection with any rights or obligations assigned by the Corporation to the Trustee pursuant to the Assignment Agreement.

DEFEASANCE

If all Outstanding Certificates executed and delivered pursuant to the Trust Agreement will be paid and discharged in any one or more of the following ways:

(1) by well and truly paying or causing to be paid the principal and interest with respect to all such Certificates Outstanding, as and when the same become due and payable;

(2) by the deposit by the County with the Trustee, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Certificate Fund and the Reserve Fund without the need for further investment, is fully sufficient to pay all such Certificates Outstanding, including all principal, premium (if any) and interest at or before their respective maturity dates, notwithstanding that any Certificates will not have been surrendered for payment; or

(3) by depositing with the Trustee, in trust, lawful money or direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed by the United States of America (provided that such guaranteed obligations are eligible for AAA defeasance under then-existing criteria of S&P) which, in the opinion of Independent Counsel, are permitted under regulations issued pursuant to Section 149(b) of the Code and will not impair the tax exemption of interest with respect to the Certificates, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge all such Certificates Outstanding (including all principal, premium (if any) and interest) at or before their respective maturity dates, notwithstanding that any Certificates will not have been surrendered for payment;

then, provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given or provision satisfactory to the Trustee will have been made for the giving of such notice, all obligations of the Trustee and the County under the Trust Agreement with respect to all such outstanding Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid from the amounts deposited with it to the Owners of the Certificates all sums due thereon and the obligation of the County to pay to the Trustee the amounts owing to the Trustee and the obligation of the County to disburse monies in the Excess Earnings Fund to the federal government pursuant to the Nonarbitrage Certificate. In the event such Certificates are not by their terms subject to prepayment within the next succeeding 60 days of such discharge, the County will have given the Trustee in form satisfactory to it instructions to mail, as soon as practicable after such discharge, a notice to the Owners of such Certificates and the Certificate Insurer that the deposit required by subsections (2) or (3) above has been made with the Trustee and that said Certificates are deemed to have been paid and stating such maturity or prepayment date upon which monies are expected, to be available for the payment of the principal or prepayment price, if applicable, on said Certificates.

Notwithstanding anything to the contrary, in the event that the principal and/or interest due on the Insured Certificates is paid by the Certificate Insurer pursuant to the Certificate Insurance Policy, the Insured Certificates will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the County to the registered Owners will continue to exist and will run to the benefit of the Certificate Insurer and the Certificate Insurer will be subrogated to the rights of such registered Owners.

SUBLEASE AND OPTION TO PURCHASE

Agreement to Sublease; Term of Sublease. Pursuant to the Sublease the Corporation agrees to sublease the Leased Premises to the County, and the County agrees to pay Base Rental and Additional Rental for the use and occupancy of the Leased Premises. The Lease Term (the "Lease Term") will begin on the date of execution and delivery thereof and will end on November 1, 20__, or at such earlier time as the Certificates have been paid or provision for their payment has been made in accordance with the provisions of the Sublease and the Trust Agreement; provided, however, that (i) the Sublease will terminate at such time as and in the event that the Corporation's interest in the Leased Premises is purchased pursuant to Section 14 of such Sublease, or at such time as and in the event that the Leased Premises, or so much thereof as to render the remainder of the Leased Premises unusable, will be taken by eminent domain and (ii) in the event the parties amend the Base Rental payable in connection with the issuance of Additional Certificates pursuant to the Trust Agreement, the Lease Term may be concurrently extended by the parties (subject to subsequent adjustment pursuant to clause (i) hereof).

Substitution and Release of Leased Premises. Notwithstanding anything to the contrary contained in the Sublease, the Leased Premises may be amended, modified, released, transferred, changed or substituted by other properties, solely in the discretion of the County; provided, however, that: (i) the Certificate Insurer will have provided its prior written consent to such amendment, modification, release, transfer, change or substitution, which such consent will not be unreasonably withheld; (ii) such amendment, modification, release, transfer, change or substitution complies with the requirements set forth in Section 6.02 of the Trust Agreement; or (iii)(a) such amendment, modification, release, transfer, change or substitution does not, in the opinion of Independent Counsel, adversely affect the exclusion for federal or state income tax purposes of interest with respect to any Certificates previously executed and delivered on a tax-exempt basis; (b) the County delivers to the Trustee a certificate of a County Representative certifying that (1) the fair rental value of the Leased Premises following such amendment, modification, release, transfer, change or substitution is at least equal to the Base Rental payable under the Sublease and (2) the useful life of the amended, modified, transferred, changed or substituted Leased Premises equals or exceeds the remaining term of the Sublease; (c) the County provides evidence that the title insurance required under the Sublease includes the amended, modified, transferred, changed or substituted Leased Premises; and (d) the County has been advised by each Rating Agency then providing a rating or ratings on Outstanding Certificates, that such amendment, modification, release, transfer, change or substitution will not, in and of itself, result in a reduction of any such ratings by such Rating Agency.

It is the express intent of the County and the Corporation to release the initial Leased Premises from the Site Lease and the Sublease and to substitute in its place the real and personal property that comprises the Public Safety Communication Project upon completion of said Project. The Term of the Sublease and the Base Rental payable under the Sublease have been determined by reference to the expected useful life and rental value of the Project. Any amendment of the Sublease entered into solely to effectuate such substitution shall be exempt from the requirements of Section 2.2(i), Section 2.2(ii), Section 2.2(iii)(d) of the Sublease and Section 6.02 of the Trust Agreement, except the Certificate Insurer will have provided its prior written consent to such amendment, modification, release, transfer, change or substitution.

Transfer of Title. Upon payment of all Base Rental and Additional Rental required by the Sublease with respect to the Leased Premises, or the termination of the Sublease with respect to the Leased Premises, title to the Leased Premises, and any improvements thereon or additions thereto, will be transferred directly to the County or, at the option of the County, to any assignee or nominee of the County, in accordance with the provisions of the Sublease.

Rental Payments. The parties agree that, the fair rental value of the Leased Premises is not less than the amount set forth in the certificate of the County delivered on the Closing Date. In satisfaction of its obligations under the Sublease, the County will pay Base Rental and Additional Rental in the amounts, at the times and in the manner set forth therein, such amounts constituting in the aggregate the rental payable under such Sublease as follows:

Base Rental. (i) The County agrees to pay from legally available funds Base Rental in the amounts set forth in Exhibit B to the Sublease, a portion of which will constitute principal and a portion of which will constitute interest as determined in accordance with the terms of Exhibit B. Base Rental payable by the County in support of Fixed Rate Certificates will be due on or before each May 1 and November 1 during the Lease Term commencing November 1, 2007 or on the next succeeding Business Day in the event that any such day is not a Business Day. On the Closing Date the County shall transfer to the Trustee for deposit in the 2007 Series B Security Deposit Subaccount within the Base Rental Account a security deposit in the amount equal to 31 days of interest with respect to the Auction Rate Certificates at the Maximum Interest Rate. Base Rental payable by the County in support of Auction Rate Certificates shall be due on the first day of each month during the Lease Term commencing September 1, 2007, or on the preceding Business Day in the event that any such day is not a Business Day. In accordance with Exhibit B to the Sublease, monthly Base Rental in support of the Auction Rate Certificates shall be in an amount equal to 31 days of interest with respect to the Auction Rate Certificates at an assumed interest rate plus the amount necessary to reinstate the security deposit to the amount equal to 31 days of interest with respect to the Auction Rate Certificates at the Maximum Interest Rate, plus the amount of principal due with respect to the Auction Rate Certificates during the current calendar month. In the event payments due with respect to the Auction Rate Certificates exceed the Base Rental payable in accordance with Exhibit B to the Sublease, the County will pay Excess Base Rental up to the cumulative amount by which the fair rental value of the Leased Premises exceeded the Base Rental payable on prior payment dates. Upon any conversion of Auction Rate Certificates into Fixed Rate Certificates, Exhibit B will be amended to reflect the Base Rental payments on all Outstanding Fixed Rate Certificates. Such amendment will be deemed a ministerial matter and will not, in and of itself, require adherence to the provisions of Section 6.02 of the Trust Agreement. Base Rental payable in any Fiscal Year will be for the use and occupancy of the Leased Premises for such Fiscal Year.

(ii) Exhibit B sets forth the Base Rental with respect to the Leased Premises. In the event the County exercises its option to purchase the Leased Premises or portions thereof then from and after the date of purchase, each installment of Base Rental will be reduced by an amount equal to the Base Rental attributable to the Leased Premises or portions thereof so purchased.

(iii) To secure the performance of its obligation to pay Base Rental in support of Fixed Rate Certificates, the County will deposit Base Rental in support of Fixed Rate Certificates with the Trustee on or before the fifteenth day of the month immediately preceding the month in which such Base Rental is due, for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit will be made on the preceding Business Day.

(iv) In no event will the amount of Base Rental payable on any date exceed the aggregate amount of principal and interest required to be paid or prepaid on such date, and, in the case of Auction Rate Certificates, interest accrued and unpaid to such date, and required to be paid or prepaid within the immediately succeeding 35 days from Base Rental under the Sublease with respect to the Outstanding Certificates, according to their tenor.

<u>Additional Rental</u>. In addition to the Base Rental the County agrees to pay as Additional Rental all of the following:

(i) All taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Leased Premises, or upon any interest of the Corporation, the Trustee or the Owners therein or in the Sublease;

(ii) Insurance premiums, if any, on all insurance required under the provisions of the Sublease;

(iii) All fees and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee in connection with the Trust Agreement;

(iv) All payments owed to the Certificate Insurer pursuant to Section 3.18 of the Trust Agreement;

(v) Amounts owed to the United States as Rebatable Arbitrage pursuant to Section 3.06 of the Trust Agreement to the extent amounts available in the appropriate subaccounts of the Excess Earnings Account and the Investment Earnings Account are insufficient therefor;

(vi) All fees of the Auction Agent pursuant to the Auction Agent Agreement relating to the Auction Rate Certificates;

(vii) All fees of the Broker-Dealers pursuant to the Broker-Dealer Agreements relating to the Auction Rate Certificates; and

(viii) Any other fees, costs or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Sublease or any assignment under the Sublease or the Trust Agreement or any of the transactions contemplated thereby or related to the Leased Premises, including, without limitation, any amounts (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) which may become due.

Amounts constituting Additional Rental payable under the Sublease will be paid by the County directly to the person or persons to whom such amounts are payable. The County will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the County stating the amount of Additional Rental then due and payable and the purpose thereof.

Consideration. The payments of Base Rental and Additional Rental under the Sublease for each Fiscal Year or portion thereof during the Lease Term will constitute the total rental for such Fiscal Year or portion thereof and will be paid by the County for and in consideration of the right to the use and occupancy, and the continued quiet use and enjoyment, of the Leased Premises by the County for and during such Fiscal Year or portion thereof. The parties have agreed and determined that such total rental is not in excess of the total fair rental value of the Leased Premises. In making such determination of fair rental value, consideration has been given to the costs of construction, acquisition, delivery and financing of the Leased Premises, the replacement cost of the Leased Premises, the uses and purposes served by the Leased Premises, and the benefits therefrom that will accrue to the parties by reason of the Sublease and to the general public by reason of the County's use of the Leased Premises.

Budget. The County covenants to take such action as may be necessary to include all Base Rental and Additional Rental in its annual budget and to make the necessary annual appropriations for all such Base Rental and Additional Rental, subject to abatement discussed below.

The obligation of the County to make Base Rental or Additional Rental payments does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the County to make Base Rental or Additional Rental payments constitutes an indebtedness of the County, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Payment. Notwithstanding any dispute between the County and the Corporation, the County will make all rental payments when due and will not withhold any rental payments pending the final resolution of such dispute or for any other reason whatsoever. The County's obligation to make rental payments in the amounts and on the terms and conditions specified under the Sublease will be absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions relating to abatement.

Rental AbatementExcept to the extent of (i) amounts held by the Trustee in the Certificate Fund or the Reserve Fund, (ii) amounts received in respect of rental interruption insurance or title insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, Base Rental payments due under the Sublease will be abated during any period in which, by reason of material damage, destruction, theft, condemnation or defects in title to the Leased Premises or portion thereof, there is substantial interference with the use or right of possession by the County of such Leased Premises or portion thereof. The amount of abatement will be such that the resulting Base Rental and Additional Rental represents fair rental value for the use and possession of the remaining portions of the Leased Premises as to which the County has beneficial use and occupancy and as to which such damage, destruction, theft, condemnation or title defects do not substantially interfere with the use and right of possession by the County, provided that when determining the fair rental value of the remaining portion of the Leased Premises such determination will be made based on the greater of the fair rental value of such portion of the Leased Premises at that time or the fair rental value such portion of the Leased Premises would have had on the Closing Date. Such abatement will continue for the period commencing with the date of such substantial interference due to damage, destruction, theft, condemnation or title defects and ending with the restoration of the Leased Premises to tenantable condition. In the event of any such damage, destruction, theft, condemnation or title defects, the Sublease will continue in full force and effect.

Triple Net LeaseThe Sublease is intended to be a triple net lease. The County agrees that the rentals provided for therein will be an absolute net return to the Corporation free and clear of any expenses, charges, counter-claim or recoupment or set-offs whatsoever.

Affirmative Covenants of the Corporation and the CountyThe Corporation and the County are entering into the Sublease in consideration of, among other things, the following covenants:

Replacement, Maintenance and RepairsThe County will, at its own expense, during the term of the Sublease maintain the Leased Premises, or cause the same to be maintained, in good order, condition and repair and will replace any portion of the Leased Premises which is destroyed; provided that the County will not be required to repair or replace any such portion of the Leased Premises if there will be applied to the prepayment of Certificates insurance proceeds or other legally available funds sufficient to prepay (i) all of the Certificates Outstanding or (ii) any portion thereof relating to the Leased Premises or such portion thereof and the Base Rental allocable to the remaining portion of the Leased Premises equals the pro-rata portion of Base Rental allocable to the Certificates Outstanding after such prepayment. The County will provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Leased Premises. It is understood and agreed that in consideration of the payment by the County of the rental provided for, the County is entitled to occupy and use the Leased Premises, and no other party will have any obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Leased Premises during the Lease Term. The Corporation will not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Leased Premises. The County expressly waives the right to make repairs or to perform maintenance of the Leased Premises at the expense of the Corporation and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the Civil Code of the State relating thereto. The County will keep the Leased Premises free and clear of all liens, charges and encumbrances.

Utilities The County will pay for the furnishing of all utilities which may be used in or upon the Leased Premises during the Lease Term. Such payment will be made by the County directly to the respective utility companies furnishing such utility services or products, under such contract or contracts therefor as the County may make.

Insurance The County will secure and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance to the extent specifically permitted, all coverage on the Leased Premises required by the Sublease.

Such insurance will consist of:

(1) A policy or policies of property insurance against loss or damage to the Leased Premises known as "all risk," including earthquake (as scheduled) and flood. Such insurance will be maintained in an amount not less than the aggregate principal amount of Certificates at such time Outstanding. Such insurance may at any time include deductible clauses, on a per loss basis in any one year, not to exceed (i) $50,000, in the case of all risk insurance, (ii) $250,000 in the case of flood insurance, (per unit or 2% of total values per unite per occurrence, subject to a $250,000 minimum situated within a 100 year flood plain (as defined by FEMA)) and (iii) 5% of the loss per unit and per occurrence subject to a $500,000 minimum for earthquake insurance. However, in the case of all risk and flood insurance, if insurance is not available from reputable insurers at a reasonable cost, the County may self-insure to the extent necessary to enable it to repair or replace the Property; provided further, in the case of earthquake insurance, the County need not self-insure against earthquake damage if earthquake insurance is not available from reputable insurers at a reasonable cost;

(2) Commercial general liability coverage against claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the Leased Premises. Such insurance will afford protection with a combined single limit of not less than $1,000,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time to time be recommended by the County's risk management officer or an independent insurance consultant retained by the County for that purpose; provided, however, that the County's obligations under this clause may be satisfied by self-insurance;

(3) Workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the County in connection with the Leased Premises and to cover full liability for compensation under any such act aforesaid; provided, however, that the County's obligations under this clause may be satisfied by self-insurance;

(4) Rental interruption insurance from a provider rated at least "A" by A.M. Best & Company to cover loss, total or partial, of the use of the Leased Premises as a result of any of the hazards covered by the insurance required pursuant to clause (1) above in an amount sufficient at all times to pay the total rent payable under the Sublease for a period adequate to cover the period of repair or reconstruction; provided, however, that the amount payable under such policy will not be less than the amount equal to two years' maximum Base Rental;

(5) A CLTA policy or policies of title insurance for the Leased Premises, in an aggregate amount not less than the aggregate principal amount of the Certificates Outstanding. Each such policy of title insurance shall show title to the Leased Premises covered by such policy in the name of the Corporation or the County, subject to the Sublease and such other encumbrances as will not, in the opinion of the Corporation and the County, materially affect the use, occupancy and possession of such Leased Premises and will not result in the abatement of Base Rental payable by the County thereunder with respect to such Leased Premises; and

(6) Boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Premises in an amount not less than $2,000,000 per accident.

All policies or certificates of insurance provided for under the Sublease will name the County as a named insured, and the Corporation and its directors and the Trustee as additional insureds. All insurance policy claims payments received under clauses (1), (4), (5) and (6) above, will be deposited with the Trustee for application pursuant to the Trust Agreement. All proceeds of insurance, other than self-insurance, maintained under clauses (2) and (3) will be deposited with the County.

If the County elects pursuant to the Trust Agreement to apply such proceeds to the replacement, repair or reconstruction of the stolen, damaged or destroyed Leased Premises, Base Rental will again begin to accrue with respect thereto upon restoration of such Leased Premises or any portion thereof to tenantable condition. If the County does not so elect to so apply such proceeds within the time permitted by the Trust Agreement, then the Sublease will terminate.

The County will not be required to maintain or cause to be maintained more insurance than is specifically referred to above.

Liens The County will promptly pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Premises and which may be secured by any mechanic's, materialman's or other lien against the Leased Premises, or the interest of the Corporation therein, and will cause each such lien to be fully discharged and released; provided, however, that the County or the Corporation (i) may contest any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the County will forthwith pay and discharge such judgment or lien; or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty. The County will not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Leased Premises, other than the rights of the Corporation and the County as provided in the Sublease. Except as expressly provided in the Sublease, the County will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, if the same will arise at any time.

Eminent Domain In the event of a taking by eminent domain, there will be an abatement of Base Rental in accordance with Section 3.5 of the Sublease. If less than a substantial portion of the Leased Premises will be taken under the power of eminent domain, and the remainder is usable for County purposes, then there will be an abatement of Base Rental only to the extent of the portion of the Leased Premises which is unusable and the Sublease will continue in full force and effect and will not be terminated with respect to the Leased Premises by virtue of such taking and the parties waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking will be paid to the Trustee for application in accordance with the provisions of Section 3.10 of the Trust Agreement. If the County elects pursuant to such Section 3.10 of the Trust Agreement to apply such proceeds to the repair or replacement of the condemned Leased Premises, then Base Rental shall again begin to accrue with respect thereto upon restoration of the Leased Premises to tenantable condition. If so much of the Leased Premises shall be taken under the power of eminent domain as to render the remainder of the Leased Premises unusable for the County's purposes under the Sublease, and the County does not elect to repair or replace said Leased Premises or portion thereof, then upon prepayment of the Certificates relating to the Leased Premises in accordance with the Trust Agreement the Sublease will terminate with respect to the Leased Premises or portion thereof.

Assignment and Lease The County will not mortgage, pledge, assign or transfer any interest of the County in the Sublease by voluntary act or by operation of law, or otherwise; provided, however, that the County with the consent of the Certificate Insurer may sublease all or any portion of the Leased Premises, may grant concessions to others involving the use of any portion of the Leased Premises, whether such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Premises, and may assign its right to purchase the Leased Premises. The County will at all times remain liable for the performance of the covenants and conditions on its part to be performed under the Sublease, notwithstanding any subletting or granting of concessions which may be made. Nothing therein contained will be construed to relieve the County from its obligation to pay Base Rental and Additional Rental as provided in the Sublease or to relieve the County from any other obligations contained therein. In no event will the County sublease or permit the use of all or any part of the Leased Premises to any person so as to cause the interest component of Base Rental to be subject to federal income tax or State personal income tax.

Indemnification and Hold Harmless Agreement To the extent permitted by law, the County agrees to indemnify and hold harmless the Corporation and its officers and directors against any and all liabilities which might arise out of or are related to the Sublease, the Leased Premises or the Certificates, and the County further agrees to defend the Corporation and its officers and directors in any action arising out of or related to the Sublease, the Leased Premises or the Certificates.

Defaults If the County (i) fails to pay any Base Rental when the same becomes due and payable, (ii) becomes the subject of proceedings under Title 11 of the United States Code and such proceedings are not dismissed within 90 days, or (iii) fails to keep, observe or perform any other term, covenant or condition the County will be deemed to be in default and it will be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Sublease. In determining whether a default has occurred under clause (i) of the preceding sentence, no effect will be given to payments made under the Certificate Insurance Policy. The County will in no event be in default in the observance or performance of any covenant, condition or agreement in the Sublease on its part to be observed or performed, other than as referred to in clause (i) of the preceding sentence, unless the County will have failed, for a period of 30 days or such additional time as is reasonably required, but in no event greater than 60 days without the prior written consent of the Certificate Insurer, to correct any such default after notice by the Corporation, the Trustee or the Certificate Insurer to the County properly specifying wherein the County has failed to perform any such covenant, condition or agreement; provided, however, that if the County fails to perform its obligation to deposit Base Rental with the Trustee as set forth in the Sublease, then the County will not be in default unless the County will have failed, for a period of 5 days, to correct such default after notice by the Trustee or the Certificate Insurer to the County properly specifying such default.

Remedies Upon any default the Corporation, in addition to all other rights and remedies it may have at law or in equity, will have the option to do any of the following:

(a) To terminate the Sublease in the manner hereinafter described on account of default by the County, notwithstanding any re-entry or re-letting of the Leased Premises as hereinafter described in subparagraph (b) hereof, and to re-enter the Leased Premises and remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Premises and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the County. In the event of such termination, the County agrees to surrender immediately possession of the Leased Premises, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Leased Premises and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions herein contained. Neither notice to pay Base Rental or to deliver up possession of the Leased Premises given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting re-entry or obtaining possession of the Leased Premises nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Sublease will of itself operate to terminate the Sublease, and no termination of the Sublease on account of default by the County will be or become effective by operation of law or acts of the parties, or otherwise, unless and until the Corporation will have given written notice to the County of the election on the part of the Corporation to terminate the Sublease. The County covenants and agrees that no surrender of the Leased Premises or of the remainder of the term thereof or any termination of the Sublease will be valid in any manner or for any purpose whatsoever unless stated by the Corporation by such written notice.

(b) Without terminating the Sublease, (x) to collect each installment of Base Rental as the same become due and enforce any other terms or provisions hereof to be kept or performed by the County, regardless of whether or not the County has abandoned the Leased Premises, or (y) to exercise any and all rights of entry and re-entry upon the Leased Premises. In the event the Corporation does not elect to terminate the Sublease, the County will remain liable and agrees to keep or perform all covenants and conditions and, if the Leased Premises are not re-let, to pay the full amount of Base Rental to the end of the term of the Sublease or, in the event that the Leased Premises are re-let, to pay any deficiency in Base Rental that results therefrom; and further agrees to pay said Base Rental and/or Base Rental deficiency punctually at the same time and in the same manner as provided for the payment of Base Rental. Should the Corporation elect to re-enter the County irrevocably appoints the Corporation as the agent and attorney-in-fact of the County to re-let the Leased Premises, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Premises and to place the personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the County, and the County indemnifies and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Premises and removal and storage of property by the Corporation or its duly authorized agents.

Prior to the exercise of the Corporation's right to re-let or otherwise change the use of the Leased Premises after termination of the Sublease, the Corporation will obtain an opinion of Independent Counsel to the effect that such use of the Leased Premises will not adversely affect the tax exemption of interest with respect to the Certificates.

Notwithstanding anything described in the Sublease to the contrary, the Corporation will have no right upon a default under the Sublease by the County to accelerate Base Rental. In addition, so long as the Certificate Insurer is not in default in its payment under the Certificate Insurance Policy, no remedy will be exercised without the prior written consent of the Certificate Insurer and the Certificate Insurer will have the right to direct the exercise of any remedy.

The termination of the Sublease by the Corporation or its assignees on account of a default by the County will not effect or result in a termination of the lease of the Leased Premises by the County to the Corporation pursuant to the Site Lease, and the County will have no right to terminate the Sublease as a remedy for a default by the Corporation in the performance of its obligations thereunder.

<u>Application of Damages and Other Payments</u>All damages and other payments received by the Corporation or its assignee pursuant to the exercise of its rights and remedies will be applied in the manner set forth in the Trust Agreement.

<u>Option to Purchase</u>The County will have the exclusive right and option, which will be irrevocable during the term of the Sublease, to purchase the Corporation's interest in the Leased Premises on any Business Day, upon payment of the Option Price (as hereinafter defined) and all other amounts then due and payable by the County to the Certificate Insurer or the Trustee thereunder and under the Trust Agreement, but only if the County is not in default under the Sublease or the Trust Agreement.

The option price in any Lease Year will be determined by reference to Exhibit C to the Sublease (the "Option Price"). The County will exercise its option to purchase by giving notice thereof to the Trustee, any Certificate Insurer and to each Rating Agency then providing a rating or ratings on

Outstanding Certificates not later than 15 days prior to the Business Day on which it desires to purchase the Leased Premises, unless the Business Day on which the County intends to exercise its option is, in accordance with the terms of the Trust Agreement, a date on which Certificates are subject to optional prepayment, in which case the County will give notice to the Trustee and such Rating Agencies of its intention to exercise its option not later than 45 days prior to the Business Day on which it desires to purchase the Leased Premises. The failure of the County to give or the failure of any Rating Agency to receive the County's notice of its intent to exercise its option to purchase will not affect the validity of the exercise of the option to purchase.

If the Business Day on which the County intends to exercise its option is, in accordance with the terms of the Trust Agreement, a date on which Certificates are subject to optional prepayment, then the County will deposit with the Trustee on such purchase date an amount equal to the Option Price which amount will be in addition to the Base Rental due on such date.

If the Business Day on which the County intends to exercise its option is not a date on which Certificates are subject to optional prepayment pursuant to the terms of the Trust Agreement, then the Option Price will be payable in installments. Each such installment, all as determined by reference to Exhibit B to the Sublease, (i) will be payable at each time at which a payment of Base Rental would have been payable had such option not been exercised until the due date of the final installment and (ii) will equal the principal amount of each Base Rental payment referred to in clause (i) above; provided, however, that the final installment will be payable on the first date on which Certificates are subject to optional prepayment pursuant to the terms of the Trust Agreement and will be in an amount equal to the Option Price on such date. Each such installment will bear interest until paid at a rate equal to the rate which would have been payable with respect to the payments of Base Rental referred to in clause (i) above.

In order to secure its obligations to pay the installments referred to in the immediately preceding paragraph, the County, concurrently with the exercise of its option, will deposit or cause to be deposited with the Trustee, in trust, cash or investments of the type described in the Trust Agreement in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay the installments (including all principal and interest) referred to in the immediately preceding paragraph at the times at which such installments are required to be paid. Such deposit will be in addition to the Base Rental, if any, due on such date. The excess, if any, of the amount so deposited over the installments actually required to be paid by the County will be remitted to the County.

On any Business Day as to which the County will have paid or made provision for the payment of the required Option Price, the Corporation will execute and deliver to the County a quitclaim deed conveying to the County or its nominee the Corporation's interest in the Leased Premises. If the County properly exercises the option prior to the expiration of the Lease Term, and the Corporation executes and delivers the quitclaim deed, then the Sublease will terminate, but such termination will not affect the County's obligation to pay the Option Price on the terms therein set forth.

No MergerIf both the Corporation's and the County's estate under the Sublease, the Site Lease or any other lease relating to the Leased Premises or any portion thereof will at any time for any reason become vested in one owner, the Sublease and the estate created thereby will not be destroyed or terminated by the doctrine of merger and the County will continue to have and enjoy all of its rights and privileges as to the separate estates.

AmendmentThe Sublease may be amended by the parties thereto in writing, but only in accordance with and as permitted by the terms of the Trust Agreement.

ASSIGNMENT AGREEMENT

Assignment.The Corporation unconditionally sells, assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, all of the Corporation's rights, title and interests in and to the Site Lease and the Sublease, including the Corporation's right to receive Base Rental, as well as its rights to enforce payment of such Base Rental when due or otherwise to protect its interest in the event of a default or termination by the County under the Sublease; provided, however, that the Corporation retains the right to indemnification and payment or reimbursement for any costs or expenses.

Acceptance of Assignment.The Trustee accepts the assignment of the Corporation's rights under the Site Lease and the Sublease for the purpose of securing such Base Rental and rights to the Owners, from time to time, of the Certificates.

No Additional Rights or Duties.The Assignment Agreement does not confer any rights nor impose any duties, obligations or responsibilities upon the Trustee, the County or the Corporation beyond those expressly provided in the Site Lease, the Sublease and the Trust Agreement.

Consent of Corporation to Sale of Certificates.The Corporation authorizes directs and consents to the execution and delivery of the Certificates by the Trustee, the receipt of payment by the Trustee for the Certificates and the transfer and deposit of such proceeds by the Trustee into the funds and accounts created pursuant to the Trust Agreement.

Further Assurances.The Corporation will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Assignment Agreement, and to further assure and confirm to the Owners of the Certificates the rights and benefits intended to be conveyed pursuant thereto.

Amendment.The Assignment Agreement may be amended by the parties thereto in writing, but only in accordance with and as permitted by the terms of the Trust Agreement.

SITE AND FACILITIES LEASE

Pursuant to the Site Lease, the County leases to the Corporation the real property, buildings and improvements described in Exhibit A thereto. The Leased Premises may be amended, modified, released, transferred, changed or substituted by other properties pursuant to Section 2.2 of the Sublease by and between the County and the Corporation.

TermThe Site Lease will commence on its date of execution and delivery and will end on the date of termination of the Sublease; provided, however, that if, in the exercise of its remedies under the Sublease, the Corporation terminates the Sublease, the related Site Lease will not terminate, and the term will end on November 1, 2027, or at such earlier time as the County's payment obligations under the Sublease and the Trust Agreement have been paid in full.

Rent The Corporation will pay to the County an advance rent of $1.00 and other valuable consideration, as full consideration for the Site Lease over its term.

Purpose The Corporation will utilize the Leased Premises for the purposes described in the Sublease and for such other purposes as may be incidental thereto.

Assignment and Sublease The Corporation will not assign, mortgage, hypothecate or otherwise encumber any Site Lease or any rights thereunder or the leasehold created thereby by trust agreement, indenture or deed of trust or otherwise or sublet the Leased Premises without the written consent of the County, except that the County expressly approves and consents to (i) the Sublease and (ii) the assignment and transfer of the Corporation's rights, title and interests in the Site Lease to the Trustee pursuant to the Assignment Agreement. In the event of default by the County under the Sublease, the County expressly approves the assignment of the Site Lease.

Expiration. The Corporation agrees, upon the expiration of the Site Lease, to relinquish its rights in and to quit and surrender the Leased Premises; it being the understanding of the parties thereto that upon termination of the Site Lease any title to the buildings and improvements on the Leased Premises will vest in the County free and clear of any interest of the Corporation.

Eminent Domain. If the whole or any part of the Leased Premises are taken under the power of eminent domain, the interest of the Corporation will be recognized by the County, and any proceeds will be paid to the Trustee, as assignee of the interest of the Corporation, in accordance with the terms of the Sublease and the Trust Agreement.

Default In the event that the Corporation or its assignee is in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, the County may exercise any and all remedies granted by law, except that no merger of the Site Lease and the Sublease will be deemed to occur as a result thereof; provided, however, that the County will have no power to terminate the Site Lease by reason of any default on the part of the Corporation or its assignee.

Amendment The Site Lease may be amended by the parties thereto in writing, but only in accordance with the terms of the Trust Agreement.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

The information in this Appendix D concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the County takes no responsibility for the completeness or accuracy thereof. The County cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates; (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates; or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix D. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds 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, (respectively, "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 the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates 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. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Certificates called for redemption or of any other action premised on such notice. Redemption of portions of the Certificates by the County will reduce the outstanding principal amount of Certificates held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Certificates held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Certificates for the Beneficial Owners.

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

Payments of principal of, premium, if any, and interest evidenced by the Certificates 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 County or the Trustee, 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 Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time-to-time. Payment of principal of, premium, if any, and interest evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Trustee, 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.

NONE OF THE COUNTY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF CERTIFICATES FOR PREPAYMENT.

None of the County, the Trustee or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County, the Trustee or the Underwriter is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the County or the Trustee take any responsibility for the accuracy thereof.

None of the County, the Corporation, the Trustee or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County, the Trustee or the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

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APPENDIX E

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

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APPENDIX E

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

August , 2007

County of Riverside
Riverside, California

APPROVING OPINION: $73,775,000 County of Riverside Certificates of Participation, 2007 Series A (Public Safety Communication and Refunding Projects) (Fixed Rate Certificates) and $37,350,000 County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) (Auction Rate Certificates)

Ladies and Gentlemen:

We have acted as special counsel in connection with the sale, execution and delivery of $73,775,000 aggregate principal amount of County of Riverside Certificates of Participation, 2007 Series A (Public Safety Communication and Refunding Projects) (Fixed Rate Certificates) and $37,350,000 County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) (Auction Rate Certificates) (collectively, the "Certificates"), representing proportionate interests of the owners thereof in the Sublease and Option to Purchase (Public Safety Communication and Refunding Projects), dated as of August 1, 2007 (the "Sublease"), by and between the County of Riverside, California (the "County") and the County of Riverside Asset Leasing Corporation (the "Corporation"), including the right to receive payments of Base Rental (as that term is defined in the Sublease), to be made by the County to the Corporation pursuant to the Sublease. The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Corporation and the County. Capitalized terms used herein that are not defined will have the meanings given in the Trust Agreement.

The County has leased real property, buildings, and improvements (the "Leased Premises") to the Corporation pursuant to the Site and Facilities Lease (Public Safety Communication and Refunding Projects), dated as of August 1, 2007 (the "Site Lease"). The Corporation has leased the Leased Premises together with all buildings and improvements to be constructed thereon to the County pursuant to the Sublease. The Sublease has been entered into by the County for the purpose of financing the acquisition, installation and construction of the public safety communications system and to prepay and refinance certain 1997 Certificates of Participation identified in the Trust Agreement.

The County is obligated under the Sublease to pay the Base Rental payments from any source of legally available funds, subject to provisions in the Sublease providing for abatement of Base Rental payments in certain circumstances. A portion of each of the Base Rental payments is designated as interest.

Pursuant to the Assignment Agreement (Public Safety Communication and Refunding Projects), dated as of August 1, 2007 (the "Assignment Agreement"), the Corporation has assigned to the Trustee, on behalf of the Owners of the Certificates, all of the Corporation's right to receive Base Rental payments and certain other rights and interests under the Sublease.

Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Trust Agreement.

In our capacity as Special Counsel, we have examined the record of proceedings submitted to us relative to the execution and delivery of the Certificates, the Trust Agreement, the Site Lease, the Sublease, the Assignment Agreement, the Tax and Nonarbitrage Certificate (the "Tax Certificate"), other certifications of the County and the Corporation, and such other documents and matters deemed necessary by us to render the opinions sets forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto.

The opinions expressed herein are based upon 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 neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Site Lease, the Sublease and the Tax Certificate may be 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 contained in applicable law regarding legal remedies against the County or the Corporation. We express no opinion as to any provision in the Trust Agreement, the Sublease, the Site Lease, the Assignment Agreement or the Certificates with respect to the priority of any pledge or security interest, indemnification, or governing law. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Sublease or the Site Lease, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto in this letter.

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

1. The Sublease and the Site Lease have been duly authorized, executed and delivered by the County and the Corporation and constitute the legally valid and binding obligations of the County and the Corporation, enforceable in accordance with their respective terms.

2. The Trust Agreement has been duly authorized, executed and delivered by the County and the Corporation and constitutes the legally valid and binding obligation of the County and the Corporation, respectively, enforceable in accordance with its terms, and the Certificates are entitled to the benefits of the Trust Agreement.

3. The Assignment Agreement has been duly authorized, executed and delivered by the Corporation and creates a valid assignment to the Trustee of certain rights of the Corporation in the Sublease, including the right to receive the Base Rental payments from the County to the extent and as more particularly described therein.

4. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements that must be met subsequent to the execution and delivery of the Certificates for interest with respect thereto be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest with respect to the Certificates to be included in gross income for Federal income tax purposes retroactive to the date of execution and delivery of the Certificates. Pursuant to the Trust Agreement and the Tax Certificate, the County has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest with respect to the Certificates from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the County has made certain representations and certifications in the Trust Agreement, the Sublease and the Tax Certificate, as applicable. We have not and will not independently verify the accuracy of those representations and certifications.

Under existing law and assuming compliance with the aforementioned covenant, and the accuracy of the aforementioned representations and certifications, interest with respect to the Certificates is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest with respect to the Certificates is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. Interest with respect to the Certificates is exempt from California personal income taxes.

Except as stated in opinions 4 and 5 above, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the Certificates. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Certificates, or the interest with respect thereto, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

Respectfully submitted,

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Certificate") is executed and delivered by the County of Riverside (the "County") as of August 22, 2007 in connection with the execution and delivery of the $73,775,000 County of Riverside Certificates of Participation, 2007 Series A (Public Safety Communication and Refunding Projects) (Fixed Rate Certificates) (the "2007 Series A Certificates") and the $37,350,000 County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) (Auction Rate Certificates) (the "2007 Series B Certificates," and together with the 2007 Series A Certificates, the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2007 (the "Trust Agreement"), by and among the County, the County of Riverside Asset Leasing Corporation (the "Corporation") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Certificates are also being executed and delivered pursuant to a Resolution of the Board of Supervisors of the County adopted on July 31, 2007 (the "Resolution"). The County hereby covenants and agrees as follows:

Section 1. Purpose of Certificate. This Certificate is being executed and delivered by the County for the benefit of the Owners and Beneficial Owners (as defined below) of the Certificates and in order to assist the Participating Underwriters (as defined below, in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report of the County provided by the County pursuant to, and as described in, Sections 3 and 4 of this Certificate.

"*Beneficial Owner*" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"*Commission*" means the Securities and Exchange Commission.

"*Dissemination Agent*" means any person appointed in writing by the County to act as the County's agent in complying with the filing requirements of the Rule. As of the date of this Certificate, the County has not appointed a Dissemination Agent.

"*Listed Event*" means any of the events listed in Section 5(a) of this Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Commission are currently found at http://www.sec.gov/info/municipal/nrmsir.htm.

"*Participating Underwriters*" means any of the original purchasers of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means paragraph (b)(5) of Rule 15c2-12 adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Commission. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The County shall, or shall cause the Dissemination Agent to, not later than 60 days after the County normally receives its audited financial statements from its auditors in each year but in no event later than February 15, commencing with the report for the County's Fiscal Year ended June 30, 2007, provide to each Repository copies of an Annual Report of the County, which is consistent with the requirements of Section 4 of this Certificate. Each 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 Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of such Annual Report and later than the date required above for the filing of such Annual Report if it is not available by that date. The County shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the County hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the County. If the County's Fiscal Year changes, the County shall give notice of such change in the same manner as for a Listed Event under Subsection 5(c).

(b) Not later than 15 Business Days prior to the date specified in Subsection (a) above for providing an Annual Report to each Repository, the County shall provide such Annual Report to the Dissemination Agent (if one has been appointed) and to the Trustee (if the Trustee is not the Dissemination Agent). If the County is unable to provide to each Repository such Annual Report by the date specified in Subsection (a) above, the County shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form of Exhibit A to this Certificate.

(c) The Dissemination Agent (if one has been appointed) shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Annual Report has been furnished to the Dissemination Agent, file a report with the County certifying that the Annual Report has been provided pursuant to this Certificate, stating the date it was provided and listing each Repository to which it was provided.

Section 4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the County for the Fiscal Year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Counties." If the County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Subsection 3(a) of this Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Certificates, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the financial statements, the following type of information will be provided in one or more reports:

(i) assessed valuations, tax levies and delinquencies for real property located in the County for the Fiscal Year of the County most recently ended;

(ii) summary financial information on revenues, expenditures and fund balances for the County's total budget funds for the Fiscal Year of the County most recently ended;

(iii) summary financial information on the proposed and adopted budget of the County for the current Fiscal Year and any changes in the adopted budget;

(iv) summary of the aggregate annual debt obligations of the County as of the beginning of the current Fiscal Year;

(v) summary of the annual outstanding principal obligations of the County as of the beginning of the current Fiscal Year; and

(vi) the ratio of the County's outstanding debt to total assessed valuations as of the end of the Fiscal Year of the County most recently ended.

Any or all of the items listed above may be included by specific reference to other documents, including official statements or other disclosure documents of debt issues of the County or related public entities, which have been submitted to each Repository or the Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the County to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the County or to reflect changes in the business, structure, operations, legal form of the County or any mergers, consolidations, acquisitions or dispositions made by or affecting the County; provided that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax status of the Certificates;

(vii) modifications to the rights of Owners of the Certificates;

(viii) bond calls other than mandatory sinking fund redemptions;

(ix) defeasances;

(x) release, substitution, or sale of property, if any, securing repayment of the Certificates; and

(xi) rating changes.

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

(c) If the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall promptly file, or cause to be filed, a notice of such event with the Municipal Securities Rulemaking Board and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Subsections (a)(viii) and (ix) above need not be given under this subsection any earlier than when the notice, if any, of the underlying event is given to Owners of affected Certificates pursuant to the Trust Agreement.

(d) The Trustee, if not the Dissemination Agent, shall, within 10 Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events (with no obligation to determine the materiality thereof), contact the County, inform such person of the event, and request that the County promptly notify the Dissemination Agent, or if there is no Dissemination Agent, the Trustee, in writing whether or not to report the event pursuant to paragraph (b). For the purpose of this Certificate "actual knowledge" means actual knowledge at the principal corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Trust Agreement.

Section 6. Termination of Reporting Obligation. The County's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates or upon delivery to the County and to the Dissemination Agent (if any) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Certificates, the County shall give notice of such termination in the same manner as for a Listed Event under Subsection 5(c).

Section 7. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 60 days' written notice to the County. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Certificate.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Certificate, the County may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Subsection 3(a), Section 4, or Subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners of the Certificates, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Certificate, the County shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Subsection 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Certificate shall be deemed to prevent the County from disseminating any other information, including the information then contained in the County's official statements or other disclosure documents relating to debt issuances, using the means of dissemination set forth in this Certificate 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 Certificate. If the County 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 Certificate, the County shall have an obligation under this Certificate 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 County to comply with any provision of this Certificate, any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the County to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed an Event of Default under the Trust Agreement with respect to the Certificates, and the sole remedy under this Certificate in the event of any failure of the County to comply with this Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are expressly and specifically set forth in this Certificate and the County agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination

Agent's negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 12. Beneficiaries. This Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriters, the Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. Governing Law. This Certificate shall be governed by the laws of the State of California and the federal securities laws.

Section 14. Filing With Central Post Office. Any filing under this Certificate may alternatively be made by transmitting such filing to the Texas Municipal Advisory Council as provided at http:www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the Texas Municipal Advisory Council dated September 7, 2004.

Section 15. Notices. Any notice required to be delivered to a party under this Certificate shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telex or by being deposited, postage prepaid, in a post office letter box, addressed, as the case may be, as set forth below, or such other addresses as may have been filed in writing with the Dissemination Agent.

to the Trustee:	Wells Fargo Bank, National Association 707 Wilshire Boulevard, 17th Floor Los Angeles, CA 90017 Attention: Corporate Trust Department
to the County:	County of Riverside County Administration Center 4080 Lemon Street, 4th Floor Riverside, CA 92501-3651 Attention: County Executive Officer

Section 16. Counterparts. This Certificate may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the County and the Dissemination Agent (if any) shall preserve undestroyed, shall together constitute but one and the same instrument.

[End of Continuing Disclosure Agreement]

COUNTY OF RIVERSIDE

By ________________________________

____

[Signature Page for Continuing Disclosure Certificate]

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	County of Riverside, California
Name of Certificate Issue:	$73,775,000 County of Riverside Certificates of Participation, 2007 Series A (Public Safety Communication and Refunding Projects) (Fixed Rate Certificates)
	$37,350,000 County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) (Auction Rate Certificates)
Issuance Date:	August 22, 2007

NOTICE IS HEREBY GIVEN that the COUNTY OF RIVERSIDE (the "County") has not provided the Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate, dated as of August 22, 2007, executed and delivered by the County. [The County anticipates that the Annual Report will be filed by ____________].

Dated: ______________

COUNTY OF RIVERSIDE

By ________________________________
Authorized Officer

APPENDIX G

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on regisrered Obligarions to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

APPENDIX H

AUCTION PROCEDURES

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This Appendix A to the Trust Agreement dated as of August 1, 2007 by and among the County of Riverside, the County of Riverside Asset Leasing Corporation and Wells Fargo Bank, National Association, as trustee contains provisions relating to the County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication and Refunding Projects) (the "Auction Rate Certificates") while in an Auction Rate Mode.

ARTICLE I

Definitions

In addition to the words and terms otherwise defined in the Trust Agreement, the following words and terms as used in this Appendix A (hereinafter "this Appendix") and elsewhere in the Trust Agreement have the following meanings with respect to Auction Rate Certificates in an Auction Rate Mode unless the context or use indicates another or different meaning or intent:

"**Agent Member**" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"**All Hold Rate**" means, as of any Auction Date, 55% of the Index in effect on such Auction Date.

"**Auction**" means each periodic implementation of the Auction Procedures.

"**Auction Agent**" means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be Wells Fargo Bank, National Association.

"**Auction Agreement**" means an Auction Agent Agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Auction Rate Certificates while such Auction Rate Certificates bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

"**Auction Date**" means with respect to any Series of Auction Rate Certificates:

(a) Daily Auction Period. If the Auction Rate Certificates are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Auction Rate Certificates are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Auction Rate Certificates are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Auction Rate Certificates (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Auction Rate Certificates in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Auction Rate Certificates and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Auction Rate Certificates; and provided, further, that if the Auction Rate Certificates are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Auction Rate Certificates and (y) the Business Day next preceding the final maturity date for the Auction Rate Certificates. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for the Auction Rate Certificates is September 7, 2007.

"Auction Desk" means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Auction Rate Certificates, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

"Auction Multiple" means, as of any Auction Date, the Percentage of Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Auction Rate Certificates in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage of Index
AAA/Aaa	175%
AA/Aa	200
A/A	250
BBB/Baa	275
Below BBB/Baa	300

"**Auction Period**" means with respect to the Auction Rate Certificates:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to Auction Rate Certificates in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to Auction Rate Certificates in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Periods Generally End this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to Auction Rate Certificates in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to Auction Rate Certificates in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to Auction Rate Certificates in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to Auction Rate Certificates in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding January 31 or July 31;

Provided, however, that if there is a conversion of the Auction Rate Certificates with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

"**Auction Period Rate**" means the Auction Rate or any other rate of interest to be borne by the Auction Rate Certificates during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

"**Auction Procedures**" means the procedures for conducting Auctions for Auction Rate Certificates during an Auction Rate Mode set forth in this Appendix.

"**Auction Rate**" means for the Auction Rate Certificates for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Auction Rate Certificates are the subject of Submitted Hold Orders, the All Hold Rate for such Auction Rate Certificates and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Auction Rate Certificates.

"**Auction Rate Mode**" means, for the Auction Rate Certificates, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Auction Rate Certificates.

"**Authorized Denominations**" means $25,000 and integral multiples thereof so long as the Auction Rate Certificates bear interest at the Auction Period Rate, notwithstanding anything else in the Trust Agreement to the contrary.

"**Available Auction Rate Certificates**" means, for the Auction Rate Certificates on each Auction Date, the number of Units of Auction Rate Certificates that are not the subject of Submitted Hold Orders.

"**Bid**" has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

"**Bidder**" means each Existing Owner and Potential Owner who places an Order.

"**Auction Rate Certificates**" means the County of Riverside Certificates of Participation, 2007 Series B (Public Safety Communication Project).

"**Broker-Dealer**" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the County and that is a party to a Broker-Dealer Agreement with the Auction Agent and the County. The "Broker-Dealer of record" with respect to any Auction Rate Certificate is the Broker-Dealer which placed the Order for such Auction Rate

Certificate or whom the Existing Owner of such Auction Rate Certificate has designated as its Broker-Dealer with respect to such Auction Rate Certificate, in each case as reflected in the records of the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the County and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from to time be amended or supplemented.

"Broker-Dealer Deadline" means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

"Business Day" in addition to any other definition of "Business Day" included in the Trust Agreement, while Auction Rate Certificates bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Auction Rate Certificates.

"Clerical Error" means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"Conversion Date" means the date on which any Series of the Auction Rate Certificates begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

"County" means the County of Riverside, California.

"Electronic Means" means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"Error Correction Deadline" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

"**Existing Owner**" means a Person who is the beneficial owner of Auction Rate Certificates; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

"**Flexible Auction Period**" means with respect to the Auction Rate Certificates,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of Auction Rate Certificates with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Auction Rate Certificates with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of the Auction Rate Certificates with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of Auction Rate Certificates with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of Auction Rate Certificates with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Auction Rate Certificates.

"**Hold Order**" means an Order to hold the Auction Rate Certificates as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

"**Index**" means on any Auction Date with respect to Auction Rate Certificates in any Auction Period of 35 days or less shall be the One-Month LIBOR Rate on such date. The Index with respect to Auction Rate Certificates in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the County and the Broker-Dealer. If either rate is unavailable, the Index shall be an index or rate agreed to by the Broker-Dealer and consented to by the County. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

"**Index Agent**" means the Trustee or such other Person acceptable to the Trustee as may be designated by the County to act as the Index Agent for the Trustee.

"**Initial Period**" means the period from the Closing Date to but not including September 9, 2007.

"**Interest Payment Date**" with respect to Auction Rate Certificates bearing interest at Auction Period Rates, means, notwithstanding anything else in the Trust Agreement to the contrary, September 10, 2007 and thereafter (a) when used with respect to any Auction Period other than a daily

Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Auction Rate Certificates would be payable if such Auction Rate Certificates bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Auction Rate Certificates becomes due and payable (whether at stated maturity, upon prepayment, or otherwise).

"**Maximum Rate**" means, as of any Auction Date, the product of the Index multiplied by the Auction Multiple; provided, however, that the Maximum Rate shall not exceed the Maximum Interest Rate.

"**One-Month LIBOR Rate**" means the rate for deposits in U.S. dollars with a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the Auction Date, except that, if such rate does not appear on such page on the Auction Date, the One-Month LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. $1,000,000 are offered at approximately 11:00 a.m., London time, on the Auction Date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the "Reference Banks") selected by the Index Agent. The Index Agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One-Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One-Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Index Agent, at approximately 11:00 a.m., New York City time, on the Auction Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. $1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Index Agent is then quoting rates for such loans, then the One- Month LIBOR Rate will mean the One-Month LIBOR Rate used as the Index for the Auction Period ending on such Auction Date.

"**Order**" means a Hold Order, Bid or Sell Order.

"**Potential Owner**" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Auction Rate Certificates in addition to the Auction Rate Certificates currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

"**Record Date**" means, notwithstanding anything else in the Trust Agreement, while the Auction Rate Certificates bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

"**Securities Depository**" means, notwithstanding anything else in the Trust Agreement to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the County.

"**Sell Order**" has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

"**Submission Deadline**" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the County pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Trustee or the County. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

"**Submitted Bid**" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"**Submitted Hold Order**" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"**Submitted Order**" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"**Submitted Sell Order**" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"**Sufficient Clearing Bids**" means for the Auction Rate Certificates, an Auction for which the number of Units of such Auction Rate Certificates that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Auction Rate Certificates that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"**Trust Agreement**" means the Trust Agreement dated as of August 1, 2007 by and among the County of Riverside, the County of Riverside Asset Leasing Corporation and Wells Fargo Bank, National Association, as trustee relating to the County of Riverside Certificates of Participation, 2007 Series A and 2007 Series B (Public Safety Communication Project)

"Units" has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

"**Winning Bid Rate**" means for the Auction Rate Certificates, the lowest rate specified in any Submitted Bid which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Auction Rate Certificates that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Auction Rate Certificates.

ARTICLE II

Auction Procedures

Section 2.01. *Orders by Existing Owners and Potential Owners.* (a) Prior to the Broker-Dealer Deadline for the Auction Rate Certificates on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Auction Rate Certificates, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Auction Rate Certificates, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Auction Rate Certificates, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Auction Rate Certificates, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Auction Rate Certificates. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Auction Rate Certificates specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Auction Rate Certificates to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Auction Rate Certificates to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Auction Rate Certificates specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Auction Rate Certificates as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Auction Rate Certificates specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Rate Certificates as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Auction Rate Certificates held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Rate Certificates held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Auction Rate Certificates to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Rate Certificates to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Auction Rate Certificates sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Auction Rate Certificates, all Orders with respect to Auction Rate

Certificates accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Auction Rate Certificates, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Auction Rate Certificates;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Auction Rate Certificates, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Auction Rate Certificates, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Auction Rate Certificates, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Auction Rate Certificates specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Issuer, the County, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Auction Rate Certificates for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Auction Rate Certificates in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Auction Rate Certificates in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Auction Rate Certificates; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. *Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Auction Rate Certificates are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Auction Rate Certificates subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Auction Rate Certificates subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Auction Rate Certificates equal to the excess of the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Auction Rate Certificates considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Auction Rate Certificates considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Issuer or County that any portion of an Order by a Broker-Dealer relates to a Auction Rate Certificate which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Auction Rate Certificate which the Auction Agent has been notified by the Trustee, Issuer or County has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Auction Rate Certificates for such Auction.

(g) If an Order or Orders covering all of the Auction Rate Certificates is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Auction Rate Certificates for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Auction Rate Certificates to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Auction Rate Certificates to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. *Determination of Auction Period Rate.* (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for the Auction Rate Certificates, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for the Auction Rate Certificates on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Auction Rate Certificates, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 70% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 70% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Auction Rate Certificates are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Section 2.05. *Allocation of Auction Rate Certificates.*

(a) In the event of Sufficient Clearing Bids for the Auction Rate Certificates, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for the Auction Rate Certificates shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Certificates that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Auction Rate Certificates that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Certificates that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Certificates that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Certificates that are the subject of such Submitted Bid, but only up to and including the number of Units of Auction Rate Certificates obtained by multiplying (A) the aggregate number of Units of Outstanding Auction Rate Certificates which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Certificates held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Auction Rate Certificates subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Auction Rate Certificates;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Certificates that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Auction Rate Certificates obtained by multiplying (A) the aggregate number of Units of Outstanding Auction Rate Certificates which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Certificates subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Auction Rate Certificates subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for the Auction Rate Certificates, Submitted Orders for the Auction Rate Certificates shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Certificates that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Certificates that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Certificates that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Auction Rate Certificates obtained by multiplying (A) the aggregate number of Units of Auction Rate Certificates subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Auction Rate Certificates held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Auction Rate Certificates subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Auction Rate Certificates; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

Section 2.06. *Notice of Auction Period Rate.* (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to the Auction Rate Certificates for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Auction Rate Certificates, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Auction Rate Certificates, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Auction Rate Certificates to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Auction Rate Certificates to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Auction Rate Certificates to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to the Auction Rate Certificates for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Auction Rate Certificates to be purchased pursuant to such Bid (including, with respect to the Auction Rate Certificates in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Auction Rate Certificate) against receipt of such Auction Rate Certificates; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Auction Rate Certificates to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the County, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. Index.

(a) If for any reason on any Auction Date the Index shall not be determined as provided herein, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the County, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Auction Rate Certificates.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix, each reference to the purchase, sale or holding of Auction Rate Certificates shall refer to beneficial interests in Auction Rate Certificates, unless the context clearly requires otherwise.

(b) During an Auction Rate Mode with respect to the Auction Rate Certificates, the provisions of the Trust Agreement and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Trust Agreement by obtaining the consent of the owners of all affected Outstanding Auction Rate Certificates bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Auction Rate Certificates as required by the Trust Agreement, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the County and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Auction Rate Certificates or any exemption from federal income taxation to which the interest on the Auction Rate Certificates would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Auction Rate Certificates bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Auction Rate Certificates or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Auction Rate Certificates. Such Auction Rate Certificates shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee.

During an Auction Rate Mode, so long as the ownership of the Auction Rate Certificates is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Auction Rate Certificate only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its

Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Auction Rate Certificates from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Auction Rate Certificates to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Auction Rate Certificates so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any Auction Rate Mode, the County, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Auction Rate Certificates among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Certificates. The County shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Auction Rate Certificates.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Auction Rate Certificates, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Certificates if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, at the direction of the County, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Auction Rate Certificates. The Auction Agent shall provide notice of the County's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the County and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealer for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

Section 2.10. *Conversions from an Auction Rate Mode.* At the option of the County, the Interest Rate Mode applicable to the Auction Rate Certificates of a Series may be converted from an Auction Rate Mode to a Fixed Rate in accordance with Section 2.12 of the Trust Agreement.

ARTICLE III

Auction Agent

Section 3.01. *Auction Agent.*

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the County, to perform the functions specified in the Trust Agreement. The Auction Agent will signify its acceptance of the duties and obligations imposed upon it under the Trust Agreement by entering into an Auction Agreement, which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as will be satisfactory to the County and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Auction Rate Certificates with the same rights as if such entity were not the Auction Agent.

Section 3.02. *Qualifications of Auction Agent; Resignation; Removal.* The Auction Agent must be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof and having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Trust Agreement and a member of or a participant in DTC. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving at least ninety (90) days' notice to the County, the Certificate Insurer and the Trustee. The Auction Agent may be removed by the County by such notice, delivered to the Auction Agent, the Certificate Insurer and the Trustee as may be agreed to between the Auction Agent and the County. Upon any such resignation or removal, the Trustee shall at the written direction of the County appoint a successor Auction Agent meeting the requirements of the Trust Agreement. In the event of the resignation or removal of the Auction Agent, the Auction Agent will pay over, assign and deliver any moneys and Auction Rate Certificates held by it in such capacity to its successor. The Auction Agent will continue to perform its duties until its successor has been appointed by the Trustee. Notwithstanding the foregoing, the Auction Agent may terminate this Agreement upon 30 days' prior written notice to the County, the Certificate Insurer, and the Trustee if it has not received payment of any Auction Agent Fee or Auction Agent Acceptance Fee due in accordance with Section 3.4(a) of the Auction Agent Agreement for more than 30 days.

ARTICLE IV

Broker-Dealers

Section 4.01. *Broker-Dealers.* One or more Broker-Dealers shall be appointed by the County to perform the functions specified in the Trust Agreement with respect to each Series of Auction Rate Certificates that is initially issued in an Auction Rate Mode. One or more Broker-Dealers shall be appointed by the County with respect to other 2007 Auction Rate Certificates on or prior to the effective date of a change in the Interest Rate Mode applicable to the Auction Rate Certificates of such Series to an Auction Rate Mode. Each Broker-Dealer will signify its acceptance of the duties and obligations imposed upon it under the Trust Agreement by entering into a Broker-Dealer Agreement, which will set forth such procedural and other matters relating to the performance of its functions as will be satisfactory to the County and the Trustee.

Section 4.02. *Resignation; Removal.* Any Broker-Dealer may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving such notice to the County and the Trustee as may be agreed to between the Broker-Dealer and the County. Any Broker-Dealer may be removed by the County by such notice, delivered to the Broker-Dealer and the Trustee as may be agreed to between the Broker-Dealer and the County. Upon any such resignation or removal, the County will appoint a successor Broker-Dealer. In the event of the resignation or removal of any Broker-Dealer, such Broker-Dealer will pay over, assign and deliver any moneys and Auction Rate Certificates held by it in such capacity to its successor.

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