NEW ISSUE - FULL BOOK ENTRY ONLY

RATINGS: S&P: "AA-"
Moody's: "A2"
Fitch: "AA-"
(See "RATINGS" herein)

In the opinion of Best Best & Krieger LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

$15,105,000
SOUTHWEST COMMUNITIES FINANCING AUTHORITY
2008 LEASE REVENUE BONDS
SERIES A
(COUNTY OF RIVERSIDE CAPITAL PROJECT)

Dated: Date of Delivery **Due:** May 1, as shown on inside cover

The 2008 Lease Revenue Bonds, Series A (County of Riverside Capital Project) (the "Bonds") of the Southwest Communities Financing Authority (the "Authority") will be issued as fully registered bonds in book-entry form only, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of $5,000 or in any integral multiple of $5,000. Interest payable on the Bonds will be payable on November 1 and May 1 of each year, commencing May 1, 2009, and principal payable on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee for the Bonds (the "Trustee"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

The Bonds are being issued by the Authority for the purpose of (i) financing construction of an animal shelter in the County of Riverside (the "County"), (ii) funding capitalized interest on the Bonds, (iii) paying the costs of issuing the Bonds, and (iv) funding a reserve fund for the Bonds, all as further described herein.

The Bonds are limited obligations of the Authority payable primarily from and secured by certain revenues (the "Revenues") consisting of certain Lease Payments with respect to the Leased Premises (as described herein) by the County pursuant to a Lease Agreement, dated as of November 1, 2008 (the "Lease Agreement") between the County and the Authority. The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. The County has covenanted in the Lease Agreement to make all Lease Payments provided for therein, to include all such payments in its annual budgets, and to make the necessary annual appropriations for such rental payments. The County's obligations to make Lease Payments is subject to abatement in the event of damage to, destruction or condemnation of, or title defects relating to, the Leased Premises described herein. See "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

The County has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Bonds. The Revenues are to be received by the Authority and deposited pursuant to an Indenture of Trust, dated as of November 1, 2008 (the "Indenture") between the County and the Trustee.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS -- Redemption" herein.

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES AND OTHER FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY), NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AUTHORITY AND THE COUNTY). THE AUTHORITY DOES NOT HAVE ANY TAXING POWER. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE COUNTY'S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE COUNTY'S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE COUNTY TO MAKE LEASE PAYMENTS. THE OBLIGATION OF THE COUNTY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION 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.

The Bonds are offered, when, as and if issued and received by the Underwriter, subject to the approval of legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed upon the Underwriter by its counsel, Nossaman LLP, Irvine, California, and for the Authority and the County by County Counsel. It is expected that the Bonds, in book-entry form, will be available for delivery in New York, New York on or about November 26, 2008.

DE LA ROSA & CO.
INVESTMENT BANKERS

Dated: November 19, 2008

MATURITY SCHEDULE

$2,615,000 Serial Bonds

Maturity Date (May 1)	Principal Amount	Interest Rate	Yield	CUSIP®
2011	$245,000	4.000%	3.610%	84479XAA1
2012	255,000	4.000	3.940	84479XAB9
2013	265,000	4.000	4.130	84479XAC7
2014	275,000	4.125	4.300	84479XAD5
2015	285,000	4.300	4.480	84479XAE3
2016	300,000	4.500	4.690	84479XAF0
2017	315,000	4.750	5.010	84479XAG8
2018	330,000	5.000	5.310	84479XAH6
2019	345,000	5.250	5.590	84479XAJ2

$2,050,000 6.000% Term Bonds Due May 1, 2024, Yield: 6.200% (CUSIP®: 84479XAK9)

$2,130,000 6.250% Term Bonds Due May 1, 2028, Yield: 6.450% (CUSIP®: 84479XAL7)

$3,515,000 6.375% Term Bonds Due May 1, 2033, Yield: 6.700% (CUSIP®: 84479XAM5)

$4,795,000 6.500% Term Bonds Due May 1, 2038, Yield: 6.800% (CUSIP®: 84479XAN3)

® A registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Services Bureau, a division of The McGraw-Hill Companies, Inc.

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

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

The information set forth herein has been obtained from the Authority, the County and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinions 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 changes in the affairs of the Authority or the County since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

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

COUNTY OF RIVERSIDE/ SOUTHWEST COMMUNITIES FINANCING AUTHORITY

Authority Board of Directors

Thomas Buckley, Chairperson
Bob Buster, Vice Chairperson
Mary Craton, Member
Douglas McAllister, Member
Maryann Edwards, Member

County Board of Supervisors

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

COUNTY STAFF

Bill Luna, County Executive Officer
Paul McDonnell, County Finance Director
Don Kent, Treasurer-Tax Collector
Robert E. Byrd, CGFM, Auditor-Controller
Joe S. Rank, County Counsel
Jay Orr, Assistant County Executive Officer

SPECIAL SERVICES

Bond Counsel
Best Best & Krieger LLP
Riverside, California

Financial Advisor
Fieldman, Rolapp & Associates
Irvine, California

Trustee
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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OFFICIAL STATEMENT

$15,105,000
SOUTHWEST COMMUNITIES FINANCING AUTHORITY
2008 LEASE REVENUE BONDS
(COUNTY OF RIVERSIDE CAPITAL PROJECT)

INTRODUCTION

General

This Official Statement, including the cover page and appendices, is provided to furnish information in connection with the sale by the Southwest Communities Financing Authority (the "Authority") of $15,105,000 aggregate principal amount of 2008 Lease Revenue Bonds Series A (County of Riverside Capital Project) (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Law"). The Bonds are issued pursuant to an Indenture of Trust, dated as of November 1, 2008 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Trustee").

Proceeds of the Bonds will be used (i) to finance construction of an animal shelter in the County of Riverside (the "County"), (ii) to fund capitalized interest on the Bonds, (iii) to pay the costs of issuing the Bonds, and (iv) to fund a reserve fund for the Bonds. See "THE LEASED PREMISES" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Bonds are limited obligations of the Authority payable, on a parity basis, primarily from and secured by certain revenues (the "Revenues") consisting of certain Lease Payments to be paid by the County pursuant to a Lease Agreement (the "Lease Agreement"), dated as of November 1, 2008, between the County and the Authority, for certain real property and the improvements thereon (the "Leased Premises"). See "THE LEASED PREMISES" herein. The County is also required to pay any taxes, assessment charges, utility charges, maintenance and repair costs of the Leased Premises. The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. The County has covenanted in the Lease Agreement to make all Lease Payments provided for therein, to include all such payments in its annual budgets, and to make the necessary annual appropriations for such rental payments. The County's obligations to make Lease Payments is subject to abatement in the event of damage to, destruction or condemnation of, or title defects relating to, the Leased Premises, as described herein. (See "SECURITY FOR THE BONDS" herein). The Revenues are to be received by the Authority and deposited pursuant to the Indenture.

Terms used in this Official Statement and not otherwise defined shall have the meaning given to them in APPENDIX C attached hereto.

Security for the Bonds

The Bonds are payable solely from, and are secured by, the Revenues (as defined under "SECURITY FOR THE BONDS" herein), which primarily consist of the Lease

Payments. The Lease Payments are payable for the use of the Leased Premises, together with the capital improvements located thereon, leased to the County pursuant to the Lease Agreement, from any legally available funds of the County. The County has covenanted in the Lease Agreement to include the Lease Payments in its annual budgets. The County has further covenanted to make the necessary annual appropriations for all such Lease Payments, and said covenants have been deemed to be duties imposed by law. Any legislative enactment or State constitutional amendment having the effect of reducing the property tax rate would necessarily reduce the amount of general revenues available to the County to pay the Lease Payments. Likewise, broadened property tax exemptions could have a similar effect. See "RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein for discussion of certain other matters which may affect the collection of Revenues. The Authority does not have any power to levy and collect taxes.

The County has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Bonds. See "SECURITY FOR THE BONDS" herein.

Abatement

Except to the extent of amounts on deposit in the Revenue Fund and the Reserve Account, or otherwise available from an insurance or eminent domain award, the Lease Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal of and interest on the Bonds, will be subject to abatement during any period in which, by reason of damage or destruction or eminent domain, there is substantial interference with the use and possession by the County of the Leased Premises. See "RISK FACTORS -- Abatement and Eminent Domain" herein. Amounts on deposit in the Revenue Fund and the Reserve Account constitute a special fund for payment of Lease Payments, and shall be available for such Lease Payments in the event there is substantial interference with the use and possession of the Leased Premises.

Redemption

The Bonds are subject to redemption as described herein.

Continuing Disclosure

The County has covenanted for the benefit of owners of the Bonds, on behalf of itself and the Authority, to provide certain financial information and operating data relating to the County and the Authority by not later than sixty (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 2007/08 Fiscal Year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the County is summarized in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE." Neither the County nor the Authority have failed to comply in all material respects with any previous undertaking with respect to the Rule.

Forward-Looking Statements

This Official Statement (including the appendices hereto) contains certain forward-looking statements (collectively, the "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement, are Forward-Looking Statements. Although the Authority and the County believe that the expectations reflected in such Forward-Looking Statements are reasonable, no one can be given assurance that such statements will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the Authority or the County (collectively, the "Cautionary Statements") are disclosed in this Official Statement. All Forward-Looking Statements attributable to the Authority or the County are expressly qualified in their entirety by the Cautionary Statements.

Summary of Terms

Brief descriptions of the Bonds, the Indenture, the Lease Agreement, the Authority, the County and the Leased Premises are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the JPA Law and the Constitution and the laws of the State, as well as the proceedings of the County with respect to the Leased Premises and the Bonds, are qualified in their entirety by reference to such documents. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Copies of the documents described herein will be available at the office of the Authority, c/o the County Executive Office, 4080 Lemon Street, 4th Floor, Riverside, California 92501.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement dated as of November 30, 2004, as amended (the "JPA Agreement") among the County, the City of Canyon Lake, the City of Lake Elsinore, the City of Murrieta and the City of Temecula (the "Members"). The Authority was created for the purpose of providing financing for public capital improvements for the Members or other local agencies in the State of California, the acquisition by the Authority of such capital improvements and the purchase by the Authority of local obligations within the meaning of the JPA Act. The Authority is authorized pursuant to Article 4 of the JPA Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, any Members or such other local agencies to provide financing for public improvements of such Members.

THE COUNTY

The County was organized in 1893 from territory in San Bernardino and San Diego Counties and encompasses 7,295 square miles. The County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the south by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. The County is the fourth largest by area in the State and stretches from the Arizona border on the east to within 15 miles of the Pacific Ocean on the west. 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 2,088,322 as of January 1, 2008, which is a 2.6% increase over January 1, 2007.

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 chairperson 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.

For further information regarding the County and its financial condition, see "APPENDIX A - COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION" and "APPENDIX B - AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006/07" attached hereto. Each contains important information concerning the County and should be read in its entirety. In particular, APPENDIX A describes certain circumstances which could materially affect the financial condition of the County in Fiscal Year 2007/08 and in future Fiscal Years.

THE LEASED PREMISES

The Leased Premises

The Leased Premises consist of an approximately three acre parcel, which the Authority has leased from Animal Friends of the Valleys ("AFV") pursuant to a Ground Lease, dated November 1, 2008, between the AFV, as lessor, and the Authority, as lessee (the "Ground Lease"). The term of the Ground Lease is co-terminus with the term of the Lease Agreement, and provides that the Ground Lease may be assigned and the Leased Premises subleased, as a whole or in part, by the Authority to the County and further sub-leased by the County to any member agency of the Authority, without the necessity of obtaining the consent of AFV, if an Event of Default occurs under the Lease Agreement.

Pursuant to a memorandum of understanding between the Authority and AFV dated February 3, 2006 (the "MOU"), prior to completion of the facility the Authority and AFV will execute an operating agreement (the "Operating Agreement"). As currently anticipated by the MOU, under the Operating Agreement AFV will operate and manage the Leased Premises. In addition, AFV has agreed to operate an animal shelter program for the Authority and the County, consisting of, but not limited to, impoundment, care and feeding of all domestic and other animals at the Leased Premises; veterinary medical care when needed/applicable for the animals at the Leased Premises, including vaccination; adoption of suitable animals; a spay/neuter program; euthanasia services; micro-chipping of qualified adopted animals and maintenance of the Leased Premises. Pursuant to the MOU, the Authority will have the right to terminate the Operating Agreement if it determines that AFV is not providing the requisite services as set forth therein. The Authority will be responsible for payment of the operating costs of the Leased Premises, which it will pass-through to its members.

AFV holds title to the Leased Premises pursuant to an Amended and Restated Site Lease Agreement between the Elsinore Valley Municipal Water District ("EVMWD") and AFV, dated December 28, 2006, and as amended by that First Amendment to Amended and Restated Site Lease between the Elsinore Valley Municipal Water District and AFV (the "AFV Lease"). The initial term of the AFV Lease is 55 years, with an option to renew for an additional 44 years, at a rental rate of $2 a year. The Lease Agreement is subject to the AFV Lease. The County has covenanted in the Lease Agreement that in the event that either AFV or EVMWD terminates or causes a breach of the AFV Lease, or if the AFV Lease becomes a matter in a bankruptcy or other judicial proceedings, the County will either purchase the Leased Premises, or otherwise take action to maintain the chain of title, or substitute the Leased Premises hereunder with Substitute Leased Premises as described below.

While the County is obligated to provide animal control facilities, it is only required by law to provide adequate care and shelter for any animal impounded in such facilities. Improvements to the Leased Premises consist of financing the construction and improvement of an approximately 32,000 square foot animal control facility, located on property in the City of Wildomar, California. The building will consist of indoor kennels, a public observation and adoption area, treatment center and administration space. The total cost of the Leased Premises, including all improvements, is anticipated to be approximately $11.4 million. Pursuant to an Agency Agreement, dated as of November 1, 2008 (the "Agency Agreement") between the County and the Authority, the Authority has designated the County as its agent for providing for and supervising construction of the Project. Bids for all portions of the Leased Premises were received on October 24, 2008. The County currently anticipates recommending to the Authority in mid-December that it award the contract to R.C. Construction of Rialto, California. Construction is anticipated to commence by January, 2009, with completion by April 2010. The construction contract is expected to provide for liquidated damages of $1,000 per day in the event the facility is not constructed on time, subject to the provisions of such contract. Pursuant to the Agency Agreement, the Authority is responsible for cost overruns in excess of amounts provided by proceeds of the Bonds. However, the Authority has no other source of revenue besides contributions from its members, and in the event of such shortfall there can be no assurance that the Authority will be able to obtain such additional funds from the members. The County has determined the fair rental value of the Leased Premises to be at least $15,105,000.

Environmental Compliance

The project is subject to the California Environmental Quality Act ("CEQA"). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an Environmental Impact Report ("EIR"). Contents of an EIR include a detailed statement of the project's significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; any significant irreversible environmental changes which would result from the project; the project's growth-inducing impacts; and a brief statement setting forth the agency's reasons for determining that certain effects are not significant and hence do not require discussion in an EIR. If the agency determines that the project itself will not have a significant effect on the environment, it may adopt a negative declaration to that effect and need not prepare an EIR.

As part of its regular planning process, the Leased Premises will be evaluated under the County's environmental impact review procedures, developed in compliance with State law and regulations, and environmental documents for the Leased Premises will be prepared in accordance with such laws and regulations. On March 17, 2008, the County adopted a mitigated negative declaration with accompanying mitigation monitoring and reporting program with respect to the Project.

Substitution of Leased Premises

The County shall have the option at any time to substitute other land, facilities or improvements (the "Substitute Leased Premises") for the Leased Premises or any portion thereof (the "Former Leased Premises") or to release a portion of the Leased Premises (the "Released Premises") from the lien of the Lease Agreement, provided that the County shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution or release:

(a) The County shall provide written notification of such substitution or release to the Trustee and Rating Agencies.

(b) The County shall take all actions and shall execute all documents required to subject the Substitute Leased Premises to the terms and provisions of the Lease Agreement.

(c) (i) In the case of a substitution, the County shall determine and certify in writing to the Authority and the Trustee that the fair rental value of the Substitute Leased Premises is at least equal to the fair rental value of the Former Leased Premises and that the Substitute Leased Premises are essential to the governmental functions of the County; and

(ii) In the case of a release, the County shall determine and certify to the Authority and the Trustee that the fair rental value of the remaining Leased Premises after removal of the Released Premises is at least equal to the then remaining Lease Payments.

(d) In the case of a substitution, the County shall certify in writing to the Authority and the Trustee that the Substitute Leased Premises serve the public purposes of the County and constitute property which the County is permitted to lease under the laws of the State.

(e) In the case of a substitution, the County shall certify in writing to the Authority and the Trustee that the estimated useful life of the Substitute Leased Premises at least extends to the date on which the final Lease Payment becomes due and payable.

(f) In the case of a substitution, the County shall obtain a CLTA policy of title insurance meeting the requirements of the Lease Agreement with respect to any real property portion of the Substitute Leased Premises.

(g) In the case of a substitution, the substitution of the Substitute Leased Premises shall not cause the County to violate any of its covenants, representations and warranties made in the Lease Agreement.

(h) The County shall obtain and cause to be filed with the Trustee and the Authority an opinion of Bond Counsel stating that such substitution or release is permitted under the Lease Agreement and does not cause interest on the Bonds to become includable in the gross income of the Bond Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such substitution or release are satisfied, the Term of the Lease Agreement shall cease with respect to the Former Leased Premises or Released Premises, as applicable, and shall be continued with respect to the Substitute Leased Premises and the remaining Leased Premises and all references herein to the Former Leased Premises shall apply with full force and effect to the Substitute Leased Premises. The County shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

THE BONDS

Description of the Bonds

The Bonds will be issued only in the form of fully registered Bonds without coupons, in denominations of $5,000 or any integral multiple thereof. The Bonds will be dated the date of delivery to the Underwriter, will mature on May 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth on the inside front cover hereof. Interest on the Bonds will be paid on May 1 and November 1 of each year, commencing May 1, 2009, by check mailed on the Interest Payment Date to the registered owners of the Bonds as of the applicable Record Date (the fifteenth day of the month preceding each Interest Payment Date); *provided*, however, that at the written request of the Owner of at least $1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Trustee prior to any Record Date, interest on such Bonds shall be paid to such Owner on each succeeding Interest Payment Date (unless such request has been revoked in writing) by wire transfer of immediately available funds to an account in the United States designated in such written request.

The principal of each Bond will be payable upon the surrender of such Bond, at maturity or upon redemption prior to maturity, at the principal corporate trust office of the Trustee in Los Angeles, California.

Redemption

Optional Redemption. The Bonds maturing before May 1, 2019 shall not be subject to redemption prior to their respective stated maturities. The Bonds maturing on or after May 1, 2019, shall be subject to redemption at the option of the Authority as a whole or in part, on any date on or after May 1, 2018, from any available source of funds, a redemption price equal to the principal amount of the Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds shall also be subject to redemption as a whole or in part on any date, from Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on May 1, 2020 with respect to Term Bonds maturing May 1, 2024, May 1, 2025, with respect to Term Bonds maturing May 1, 2028, May 1, 2029 with respect to Term Bonds maturing May 1, 2033 and on May 1, 2034 with respect to Term Bonds maturing May 1, 2038, and on May 1 in each year thereafter to and including the respective date of maturity, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to subsections optional or special redemption, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of $5,000, as shall be designated by the Authority.

2024 Term Bonds

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Redemption Amount
2020	$365,000
2021	385,000
2022	410,000
2023	430,000
2024 (Maturity)	460,000

2028 Term Bonds

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Redemption Amount
2025	$485,000
2026	515,000
2027	550,000
2028 (Maturity)	580,000

2033 Term Bonds

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Redemption Amount
2029	$620,000
2030	660,000
2031	700,000
2032	745,000
2033 (Maturity)	790,000

2038 Term Bonds

Mandatory Sinking Fund Redemption Date (May 1)	Mandatory Sinking Fund Redemption Amount
2034	$ 845,000
2035	895,000
2036	955,000
2037	1,015,000
2038 (Maturity)	1,085,000

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Authority prior to the selection of Bonds for redemption, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the Authority.

Selection of Bonds for Redemption. Except for Sinking Account Redemption, whenever provision is made for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption from such maturities as shall be set forth in a Written Request of the Authority filed with the Trustee, or in the absence of such designation of maturities by the Authority, then on a pro rata basis among maturities, and in any case, by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Notice of Redemption; Conditional Notice. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and, if less than all of the Bonds of a maturity are to be redeemed, Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. See “Book-Entry System” below.

With respect to the optional redemption of the Bonds the Authority may instruct the Trustee to include a statement, the notice of redemption shall state that such redemption is conditioned upon the receipt by the Trustee on or before the date fixed for such redemption of sufficient funds for such purpose from any issue of refunding bonds. In the event that sufficient funds shall not have been deposited with the Trustee on or before the date fixed for redemption, the Trustee shall promptly notify the Owners of the Bonds by telephone, facsimile transmission or other form of telecommunication, promptly confirmed in writing; and thereupon such redemption and the notice thereof shall be deemed to be canceled and rescinded.

Effect of Redemption. Notice of redemption having been duly given, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry System

So long as Cede & Co. is the registered owner of the Bonds, transfer or exchange of Certificates may only be through the facilities of DTC. See APPENDIX F with respect to DTC procedures for transfer and exchange of ownership interests in the Bonds. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F - BOOK ENTRY PROVISIONS" herein.

The Authority, the County and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds 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. The Authority, the County and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

Additional Bonds

The Authority is authorized, without the consent of the Bondholders, in the Indenture to issue additional obligations secured by a pledge of the Revenues on a parity to the pledge securing the outstanding Bonds, provided the Lease Agreement is amended to obligate the County to pay additional amounts of rental thereunder for the use and occupancy of the Leased Premises, provided that (A) no Event of Default has occurred and is continuing under the Lease Agreement, (B) such additional amounts of rental do not cause the total rental payments made by the County thereunder to exceed the fair rental value of the Leased Premises, as set forth in a certificate of a County Representative filed with the Trustee and the Authority, (C) the County shall have obtained and filed with the Trustee and the Authority a Written Certificate of an Authorized Representative of the County showing that the fair rental value of the Leased Premises is not less than the sum of the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, (D) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the laws of the State, and (E) such additional rental is not at variable rates.

SECURITY FOR THE BONDS

General

The Indenture provides that, subject to certain rights of the Trustee, the Bonds are secured by a first lien on and pledge of all Revenues and a pledge of all of the moneys held in the Interest Account and the Principal Account, including all amounts derived from the investment of such moneys. "Revenues," as defined in the Indenture, generally means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any amounts payable under Section 4.08(d) of the Lease Agreement (relating to certain administrative expenses of the Authority); and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture. The principal payable with respect to the Lease Payments is $15,105,000.

The County is obligated to pay Lease Payments under the Lease Agreement from any legally available moneys, including its General Fund. Under California law, the obligation of the County to make Lease Payments is contingent upon the availability of the Leased Premises for use and occupancy by the County. See "Abatement" below. See "THE LEASED PREMISES" herein.

Under the Indenture, the Authority is authorized under certain conditions to issue additional obligations secured by the Revenues. See "THE BONDS – Additional Bonds" herein.

The Revenues and other funds pledged under the Indenture are the sole security for the Bonds, and the Authority has no other source of funds, other than the Lease Payments, to pay debt service on the Bonds.

See APPENDIX C hereto for a summary of the terms of the Indenture and the Lease Agreement.

Limited Obligations

The Bonds are not a debt of the County, the State or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions, other than the Authority, is liable therefor. The principal of, premium, if any, and interest on the Bonds are payable solely from the Revenues. The County's obligations under the Lease Agreement are unsecured obligations payable from any legally available funds of the County. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction.

Lease Payments

The County has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Leased Premises. So long as the Leased Premises is available for the County's use, the County has covenanted to take such action each year as may be necessary to include all Lease Payments in its annual budget and annually to appropriate an amount necessary to make such Lease Payments (see "Abatement" below). Additional Payments due from the County to the Authority include, without limitation, in each year, amounts sufficient to pay costs and expenses of the Trustee and the Authority relating to the Leased Premises and their interests therein. The amounts payable to the Trustee as Lease Payments are to be used to make the payments of principal and interest on the Bonds. The obligation of the County to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Revenue Fund or Reserve Account or otherwise available from an insurance or eminent domain award) may be abated in whole or in part if the County does not have use and possession of the Leased Premises.

Lease Payments are required to be made by the County under the Lease Agreement on the fifteenth day of the month before each May 1 and November 1, commencing April 15, 2009 (individually, a "Lease Payment Date"), for use and possession of the Leased Premises to the next occurring Lease Payment Date. The amount of such Lease Payment shall be credited with amounts on deposit in the Revenue Fund on such Lease Payment Date. Lease Payments due on each Lease Payment Date shall also be reduced by the amount of earnings received by the Trustee as of such Lease Payment Date from the investment of certain funds held by the Trustee. Lease Payments are required to be deposited in the Revenue Fund maintained by the Trustee. Pursuant to the Indenture, on each Interest Payment Date the Trustee will withdraw from the Revenue Fund amounts to make principal and interest payments on the Bonds.

The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. While the Lease Payments are subject to optional prepayment, Revenues resulting from such action will be used to redeem a corresponding amount of the Bonds, so that the remaining Lease Payments will be sufficient to pay the scheduled principal and interest payments on the Bonds.

Appropriation; Use of Leased Premises

The County has covenanted to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its proposed annual budgets and its final adopted annual budgets and to make the necessary appropriations for such Lease Payments and Additional Payments, except to the extent such payments are abated (see "Abatement" below). The foregoing covenant on the part of the County shall be deemed to be and shall be construed to be a duty imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform its covenants and agreements in the Lease Agreement.

The obligation of the County to pay Lease Payments shall constitute a current expense of the County and shall not in any way be construed to be a debt of the County, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the County, the State, or any political subdivision thereof, nor shall such obligations constitute a pledge of general revenues, funds or moneys of the County beyond the Fiscal Year for which the County has appropriated funds to pay Lease Payments or 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.

Abatement

Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments shall be abated during any period in which there is substantial interference with the use or possession of all or a portion of the Leased Premises by the County by condemnation, damage, destruction or title defect. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value for the use and possession of the portion of the Leased Premises for which no substantial interference has occurred. Such abatement shall continue for the period of the substantial interference with the use or possession of the Leased Premises. Except as provided in the Lease Agreement, in the event of any such interference with use or possession, the Lease Agreement shall continue in full force and effect and the County waives any right to terminate the Lease Agreement by virtue of any such interference. See “Insurance” below for a discussion of rental interruption insurance to be provided by, or on behalf of, the County.

Notwithstanding a substantial interference with the use or possession of all or a portion of the Leased Premises, the County shall remain obligated to make Lease Payments (i) in an amount not to exceed the fair rental value during each Fiscal Year for the portion of the Leased Premises not damaged, destroyed, interfered with or taken; (ii) to the extent that moneys derived from any source as a result of any delay in the reconstruction, replacement or repair of the Leased Premises, or any portion thereof, are available to pay the amount which would otherwise be abated; or (iii) to the extent that moneys are available in the Revenue Fund or the Reserve Account to pay the amount which would otherwise be abated, in which event the Lease Payments shall be payable from such amounts as an obligation of the County payable from a special fund.

Notwithstanding these efforts, the moneys legally available to the Trustee following the occurrence of an event which gives rise to an abatement of Lease Payments, including moneys from the Reserve Account or proceeds of rental interruption insurance, if any, may not be sufficient to pay principal of and interest on the Bonds in the amounts and at the rates set forth thereon. In such event, all Bondowners would forfeit interest attributable to abated Lease Payments payable during the period of abatement and, to the extent Bonds mature or are to be subject to mandatory redemption during a period of abatement, the Bondowners would forfeit principal attributable to such abated Lease Payments. **The failure to make such payments of principal and interest would not under such circumstances constitute a default under the Indenture, the Lease Agreement or the Bonds.**

Insurance

The Lease Agreement contain the insurance covenants described below. No assurance can be given that insurance proceeds will be available or, if available, adequate in an amount sufficient to avoid an interruption of Lease Payments. Under such a situation, an abatement of Lease Payments is likely to occur. See “Abatement” above.

The Lease Agreement provides that the County will secure and maintain or cause to be secured and maintained throughout the term of the Lease Agreement for the Leased Premises, insurance or self-insurance against the risks and in the amounts set forth in the Lease Agreement. Such insurance is required to be maintained with respect to the Leased Premises at any time in an amount not less than the aggregate principal amount of the Bonds at such time Outstanding with respect to such Leased Premises. The County shall procure and maintain, or cause to be procured and maintained, insurance against loss or damage to any Leased Premises by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance, if required, shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the judgment of the County's risk manager. Such insurance shall be in an amount at least equal to the lesser of (a) one hundred percent (100%) of the replacement cost of the Leased Premises; or (b) the aggregate unpaid principal components of the Lease Payments allocable to the Leased Premises. The County will obtain an CLTA title insurance policy covering the Leased Premises in an aggregate amount not less than the aggregate principal amount of the Bonds Outstanding.

Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the County, and may be maintained in the form of self-insurance by the County or in the form of the participation by the County in a joint powers agency or other program providing pooled insurance. See "APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- Lease Agreement – Insurance." Insurance proceeds are required to be applied to the repair of the Leased Premises; or if the proceeds are insufficient to repair or replace the Leased Premises, the County may prepay the related Lease Payments and thereby cause the redemption of outstanding Bonds. The Lease Agreement permits the County to satisfy certain of its insurance requirements through a self-insurance program.

Rental Interruption Insurance. The County shall additionally maintain rental interruption insurance to cover the total or partial loss resulting from any of the hazards covered by the insurance policy, in an amount not less than two years of maximum annual Lease Payments due under the Lease Agreement.

Reserve Account

Pursuant to the Indenture, the Trustee has established a Reserve Account for the Bonds, and deposited proceeds in an amount equal to the Reserve Requirement. See "ESTIMATED SOURCES AND USED OF FUNDS" herein.

No deposit need be made in a Reserve Account so long as there shall be on deposit therein a sum equal to the applicable Reserve Requirement. All money in the Reserve Accounts shall be used and withdrawn by the Trustee solely for the purpose of paying debt service on the related series of Bonds, in the event that no other money of the Authority is lawfully available therefor, or for the retirement of all related remaining Outstanding Bonds. See APPENDIX C hereto for a discussion of the conditions under which the Authority may substitute a credit instrument for cash on deposit in the Reserve Accounts.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

Sources of Funds:

Principal Amount of Bonds	$15,105,000.00
Net Original Issue Discount	(436,119.90)
Cost of Issuance Contribution	67,204.40
TOTAL SOURCES	$14,736,084.50

Uses of Funds:

Transfer to Project Fund	$11,400,311.24
Deposit to Reserve Account	1,156,881.26
Deposit to Interest Account(1)	1,818,310.00
Costs of Issuance(2)	360,582.00
TOTAL USES	$14,736,084.50

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(1) Capitalized interest on the Bonds through November 26, 2010 (see "THE LEASED PREMISES" above).

(2) Includes fees and expenses of Bond Counsel, the Financial Advisor, Trustee and the rating agencies, Underwriter's discount, printing costs of the Official Statement and other costs of issuing the Bonds. Includes Authority contribution of $67,204.40.

DEBT SERVICE SCHEDULE

The following table sets forth the amount of debt service with respect to the Bonds for each twelve-month Fiscal Year of the Agency ending on May 1:

Year (May 1)	Principal	Interest	Total Debt Service
2009	$ --	$391,441.74	$ 391,441.74
2010	--	909,155.00	909,155.00
2011	245,000	909,155.00	1,154,155.00
2012	255,000	899,355.00	1,154,355.00
2013	265,000	889,155.00	1,154,155.00
2014	275,000	878,555.00	1,153,555.00
2015	285,000	867,211.26	1,152,211.26
2016	300,000	854,956.26	1,154,956.26
2017	315,000	841,456.26	1,156,456.26
2018	330,000	826,493.76	1,156,493.76
2019	345,000	809,993.76	1,154,993.76
2020	365,000	791,881.26	1,156,881.26
2021	385,000	769,981.26	1,154,981.26
2022	410,000	746,881.26	1,156,881.26
2023	430,000	722,281.26	1,152,281.26
2024	460,000	696,481.26	1,156,481.26
2025	485,000	668,881.26	1,153,881.26
2026	515,000	638,568.76	1,153,568.76
2027	550,000	606,381.26	1,156,381.26
2028	580,000	572,006.26	1,152,006.26
2029	620,000	535,756.26	1,155,756.26
2030	660,000	496,231.26	1,156,231.26
2031	700,000	454,156.26	1,154,156.26
2032	745,000	409,531.26	1,154,531.26
2033	790,000	362,037.50	1,152,037.50
2034	845,000	311,675.00	1,156,675.00
2035	895,000	256,750.00	1,151,750.00
2036	955,000	198,575.00	1,153,575.00
2037	1,015,000	136,500.00	1,151,500.00
2038	1,085,000	70,525.00	1,155,525.00
TOTALS	$15,105,000	$18,522,009.42	$33,627,009.42

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds. However, the following does not purport to be an exhaustive listing of risk factors and other considerations which may be relevant to an investment in the Bonds. Additionally, there can be no assurance that other risk factors will not become evident at any future time.

No Tax Pledge

The obligation of the County to pay the Lease Payments does not constitute an obligation of the County for which the County has levied or pledged any form of taxation. The obligation of the County to pay Lease Payments does not constitute a debt or indebtedness of the County, the County, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limit or restriction.

Appropriation

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease Agreement, so long as the Leased Premises is available for its use and possession, to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and has covenanted in the Lease Agreement that, for so long as the Leased Premises is available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments. However, the County is currently liable on other obligations payable from general revenues which may have a priority over the Lease Payments (for example, tax revenue anticipation notes periodically issed by the County), and the Lease Agreement does not prohibit the County from incurring additional obligations payable from general revenues. See "APPENDIX A -- COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION" herein and the financial statements included in APPENDIX B hereto. In the event the County's revenue sources are less than its total obligations, the County could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Revenue Fund. The County's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the County to pay Lease Payments when due. (see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" below).

In addition to limitations that have been imposed on the ability of the County to raise revenues, State and federally mandated expenditures by counties for justice, health and welfare have increased. Recently, the annual increase in mandated expenditures has exceeded the annual increase in County revenues. The County has begun implementing additional security and public safety measures. Expenditures for such measures are not presently expected to be material to the financial position of the County. The County does not guarantee, however, that additional actions affecting the County will not have a material adverse financial impact on the County. In the event the County's revenues are less than its total outstanding obligations, the County may be required by federal or State law to fund other municipal services prior to the payment of any Lease Payment.

No Limit on Additional General Fund Obligations

The County has the ability to enter into other obligations which may constitute additional charges against its general revenues. To the extent that such additional obligations are incurred by the County, the funds available to make Lease Payments may be decreased.

Abatement and Eminent Domain

Lease Payments are to be paid by the County in each rental period for and in consideration of the right to use and occupy the Leased Premises during each such period.

The obligation of the County to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Revenue Fund and the Reserve Account created under the Indenture) may be abated in whole or in part if the County does not have use and possession of the Leased Premises.

The amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction or eminent domain there is interference with the use and occupancy by the County of the Leased Premises. Such adjustment or abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Premises. The Reserve Account will be funded by Bond proceeds in the amount set forth in "ESTIMATED SOURCES AND USES OF FUNDS" herein and will be available, along with amounts on deposit in the Revenue Fund, in the event amounts received by the Trustee are insufficient to pay principal and interest on the Bonds as such amounts become due. If damage or destruction or eminent domain proceedings with respect to the Leased Premises result in abatement of Lease Payments and the resulting Lease Payments, together with moneys in the above-described amounts, are insufficient to make all payments of principal and interest due on the Bonds during the period that the Leased Premises is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners of the Bonds, under the Lease Agreement or Indenture, for nonpayment under such circumstances.

Sufficiency of Lease Payments

The Lease Payments are structured to produce Revenues sufficient to pay principal of, and interest on, the Bonds when due. While the Lease Payments are subject to optional prepayment, Revenues resulting from such actions will be sufficient to redeem a corresponding amount of the Bonds, so that the remaining Lease Payments will be sufficient to pay remaining debt service on the Bonds. The County's obligation to make Lease Payments is not conditioned on its receipt of reimbursement from the Members pursuant to the JPA Agreement.

Limitation on Enforcement of Remedies; No Acceleration

The enforcement of any remedies provided in the Lease Agreement and Indenture could prove both expensive and time consuming. Although the Lease Agreement provides that the Trustee may take possession of the Leased Premises and lease it if there is a default by the County, and the Lease Agreement provides that the Trustee may have such rights of access to the Leased Premises as may be necessary to exercise any remedies, portions of such Leased Premises may not be easily subject to reletting and could be of little value to others. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE COUNTY WILL ONLY BE LIABLE FOR LEASE PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION

ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE LEASE PAYMENTS WERE DUE.

Seismic, Topographic and Climatic Conditions

The value of the Leased Premises, and the financial stability of the County, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and tornadoes). While the Leased Premises is not within a designated 100-year flood plain, it is subject to substantial runoff during large storm events and may be subject to flooding.

The area encompassed by the County, like that in much of California, may be subject to unpredictable seismic activity. The County is located within a regional network of several active and potentially active faults. The San Jacinto Fault, the Glen Helen Fault and the Lytle Creek Fault are all located within the vicinity of the County. If there were to be an occurrence of severe seismic activity in the County, there could be an abatement or adverse impact on the County's ability to pay the Lease Payments. Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Leased Premises. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the County. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Leased Premises, as well as public and private improvements within the County in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition. See "Abatement and Eminent Domain" above.

The County is exposed to a variety of wildfire hazard conditions ranging from low levels of risk along the eastern portions of the County, which is primarily desert and sparsely populated to higher hazards in the western portion of the County, which is more urban and densely populated. Currently, fire hazard severity is a function of fuel conditions, historic climate, and topography. Population density or the number of structures in a particular region are not currently used to determine the fire hazard severity for a particular region. Areas throughout the County have been designated mainly as having a "Very High Hazard" and "High Hazard." The fact that an area is in a Moderate Hazard designation does not mean it cannot experience a damaging fire; it means only that the probability is reduced, generally because the number of days a year that the area has "fire weather" is less. The State, particularly Southern California, is periodically subject to wild fires. When wildfires scorch thousands of acres in Southern California, they destroy all vegetation on mountains and hillsides. As a result, when heavy rain falls in the winter, there is nothing to stop the rain from penetrating directly into the soil. In addition, waxy compounds in plants and soil that are released during fires create a natural barrier in the soil that prevents rain water from seeping deep into the ground. The result is erosion, mudslides, and excess water running off the hillsides often causing flash flooding.

Flood zones are identified by the Federal Emergency Management Agency ("FEMA"). FEMA designates land located in a low- to moderate-risk flood zone (i.e. not in a floodplain) as being within a Non-Special Flood Hazard Area (a "NSFHA"). A NSFHA is an area that is in a low- to moderate-risk flood zone (i.e. not in a floodplain) and has less than a 1% chance of flooding each year. While the County is located within a NSFHA, severe, concentrated rainfall could result in localized flooding and river overflows. The County can make no representation that future maps will not be revised to include the County within an area deemed subject to flooding. The occurrence of wildfires or flooding in the County could result in the interference with the right of the County to use and occupy all or a portion of the Leased Premises and the abatement of the Lease Payments.

Hazardous Substances

An environmental condition that may result in the reduction in the assessed value of parcels would be the discovery of any hazardous substance that would limit the beneficial use of a property within the County, or the value of the Leased Premises. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should the Leased Premises or any substantial amount of property within the County be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction could adversely impact the property tax revenues received by the County and deposited in the General Fund, which could significantly and adversely affect the operations and finances of the County. The County and the Authority do not believe that the use of any of such substances has adversely affected the value of the Leased Premises.

California Housing Market

The housing market in southern California and the County, like that in the country generally, has deteriorated significantly over the last year. In the past several months, a number of public home builders with significant operations in the Southern California housing market have reported a substantial weakening of new home market conditions nationally in their respective filings with the Securities and Exchange Commission. In general, factors indicative of or contributing to the weakening new home market reported by those homebuilders include: (i) generally lower demand for new homes, (ii) significant increases in cancellation rates, (iii) speculators exiting the new home market, (iv) increases in the supply of new and existing homes available to be purchased, (v) increases in competition for new home orders, (vi) the greater difficulty faced by prospective home buyers in selling their existing homes in the more competitive environment, (vii) higher incentives required to stimulate new home orders and maintain homes under contract and (vii) reduced availability of mortgage loans. The weakening housing market conditions could adversely affect the value of property in the County.

Some economists also report recent increases in recorded notices of default on home mortgage loans in the County and in Southern California. The filing of a notice of default reflects the failure of a homeowner to pay mortgage loan payments in a timely manner for a certain period of time, usually three consecutive months. If home prices decline in the future, the number of notices of default may increase due to decreased home equity. Housing prices in the County declined in 2007 and are expected to continue to decline in 2008. During calendar year 2007, mortgage holders had sent 29,874 notices of default with respect to properties located within the County compared to 11,776 during calendar year 2006, and 12,000 trustee deeds had been recorded during calendar year 2007 (indicating that the property has been lost to foreclosure), compared to 1,727 during calendar year 2006. During the first half (January though June) of calendar year 2008, mortgage holders sent 31,470 notices of default and recorded 15,422 trustee deeds compared to 13,344 notices of default sent and 4,016 trustee deeds recorded in the first half of calendar year 2007.

These events are related to declines in the real estate market in general and the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide. In the State, the greatest impacts to date are in regions of the Central Valley and the Inland Empire, in which the County is located. Any decline in home values in the County could result in further property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners would delay the commencement and completion of foreclosure proceedings to collect delinquent property taxes. See “SPECIAL RISK FACTORS - Bankruptcy and Foreclosure” below. All of these factors could result in the County receiving less property tax revenue in future years, which is a significant source of revenue for the County. See APPENDIX A hereto.

Litigation Relating to the County’s General Plan

The County has been named and served in two pending lawsuits filed in Riverside County Superior Court challenging the County’s Comprehensive General Plan approved on October 7, 2003. The lawsuits allege that the County did not comply with CEQA and/or violated various planning and zoning statutes in adopting the Comprehensive General Plan. If settlement negotiations are not successful with respect to this lawsuit, future residential development in the County could be affected by an adverse ruling, although the County’s capital improvement projects are exempt from the County’s zoning and General Plan requirements.

On June 17, 2003, the Board of Supervisors approved the Western Riverside County Multiple Species Habitat Conservation Plan (the “MSHCP”) which encompasses the western portion of the County of Riverside and fourteen incorporated cities within the boundaries of the MSHCP. The MSHCP is intended to assist land owners and participating public entities in addressing the need to mitigate public and private development projects that may have direct or indirect impacts to listed species. Additionally, the MSHCP provides an expedited review process for obtaining incidental take authorization pursuant to the state and federal Endangered Species Acts allowing take of the species covered by the MSHCP. Each proposed development project within the boundaries of the MSHCP must be reviewed to determine project consistency with the requirements of the MSHCP. However, the MSHCP provides a coordinated, efficient and quicker process for mitigating project impacts as well as for obtaining incidental take authorization pursuant to the state and federal Endangered Species Acts.

With regard to the MSHCP, the County has been named as a respondent and served in a lawsuit that has been filed in the Superior Court for Riverside County challenging the MSHCP on CEQA grounds. If plaintiffs prevail and the MSHCP is set aside by the court, development projects would no longer have the benefit of MSHCP's coordinated, efficient and quicker processes for mitigating project impacts and obtaining incidental take authorization. Accordingly, development projects, including future capital improvement construction projects of the County, in the plan area could experience greater delay and expense in obtaining final government approvals.

Public Debt Burden on Leased Premises

The ability of land owners within the County to pay property tax installments as they come due could be affected by the existence of other taxes and assessments, imposed upon the land. In addition, other public agencies whose boundaries overlap those of the County could, without consent of the County, and in certain cases without the consent of the owners of the land within the County, impose additional taxes or assessment liens on the property within the County to finance public improvements to be located inside of or outside of the County. See APPENDIX A hereto for a statement of direct and overlapping debt on property within the County.

Risk of Uninsured Loss

The County covenants under the Lease Agreement 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 Lease Payments 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 the Lease Payments which secure the Bonds.

Impact of State Budget

The Fiscal Year 2004/05 State budget was passed by the Legislature on July 29, 2004, and was signed into law by the Governor on July 31, 2004. The 2004/05 budget authorized general fund spending of $78.7 billion, and, among other things, shifted $1.3 billion in revenues from local government to schools in both Fiscal Year 2004/05 and 2005/06. The State budgets for Fiscal Years 2005/06, 2006/07 and 2007/08 were adopted without any further reallocation of funds. Information about the State budget is regularly available at various State-maintained websites. 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 budget consisted of payments from the State and 18% consisted of payments from the Federal government. For Fiscal Year 2008/09 the

County has budgeted these amounts at 38% and 18%, respectively, from the State and Federal government.

Two measures intended to address the existing cumulative budget deficit and to implement structural reform were both approved at the March 2, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorized the issuance of up to $15 billion of economic recovery bonds to finance the State general fund deficit as of June 30, 2004 and other general fund obligations undertaken prior to June 30, 2004. The first two series of economic recovery bonds were issued in May 2004, and provided approximately $8.339 billion of net proceeds to the State's general fund. A third series of economic recovery bonds in the principal amount of $2.974 billion was issued in June 2004. The economic recovery bonds are general obligations of the State and are secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent, starting July 1, 2004. Such tax proceeds will revert to their prior allocation when the bonds are repaid. The portion of sales and use tax that otherwise would have been allocated to local governments, including the County, would be decreased by a commensurate amount. Commencing in Fiscal Year 2004/05, local government's share of local property tax revenues were restored by an amount equal to the one-quarter cent reduction in the local sales and use tax, creating a revenue neutral effect on local agencies for the 2004/05 Fiscal Year. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing.

In connection with the shift of $2.6 billion of local agency revenues to school funding, the Legislature and the Governor agreed to place Proposition 1A, entitled "Protection of Local Government Revenues," on the ballot ("Proposition 1A"). Proposition 1A would amend the California Constitution to (i) prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (and only then if (x) such amounts were agreed to be repaid with interest within three years, (y) the State had repaid any other borrowed amounts, including the current amount owed to repay the vehicle license fee shift, and (z) such borrowing could not occur more often than twice in ten years); (ii) protect the property tax backfill of sales tax revenues diverted to pay the economic recovery bonds, and the reinstatement of the sales tax revenues once such bonds are repaid; and (iii) protect local agency vehicle license fee revenue (or a comparable amount of backfill payments from the State). The initiative was approved by the voters on November 2, 2004.

The State budget for Fiscal Year 2007/08 was adopted without any new direct cuts to the County's General Fund revenue. Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2007/08 State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst ("LAO") at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Authority or the County. Neither the Authority or the County takes any responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

The State budget for Fiscal Year 2008/09 was adopted by the Legislature on September 16, 2008 and signed by the Governor on September 23, 2008, reflecting a reduction of $850 million from the amounts in the proposed budget bill adopted by the Legislature due to the line item veto by the Governor of $510 million in State General Fund appropriations and $340 million in State General Fund savings due to the delay in enacting the budget and the effect of Executive Order S-09-08 (which terminated the services of temporary employees and reduced overtime). Information about the State budget is regularly available at various State-maintained websites. The Fiscal Year 2008/09 State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst ("LAO") at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Authority or the County. Neither the Authority or the County takes any responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Based on the Controller's September cash report, revenue receipts in the month of September were approximately $814 million below projections for the three major tax revenues (for a total of approximately $1.1 billion below projections for the fiscal year to date). A preliminary review of revenue receipts and other factors would indicate that State General Fund budgetary revenues could be adjusted downward by $3 billion, $1.3 billion more than the Fiscal Year 2008/09 budget reserve of $1.7 billion. An update of Fiscal Year 2008/09 revenues will be prepared in connection with the release of the Fiscal Year 2009/10 Governor's Budget. Given the potential budgetary gap which may result from these revenue declines, the Governor announced that he will call a special session of the legislature on November 5, 2008 to develop solutions to bridge the projected Fiscal Year 2008/09 budget gap, which is projected to be $11.2 billion. The Governor has proposed $4.5 billion in cuts and $4.7 billion in new revenues, including a temporary increase in the State sales tax from 5% to 6.5%. This increase is projected to generate additional sales tax revenues for the State General Fund of $3.219 billion in Fiscal Year 2008/09 and $6.606 billion in Fiscal Year 2009/10, with the State sales tax reverting back to 5% at the end of three years. The Governor has proposed additional revenue increases by broadening the sales and use tax to include certain services, imposing an oil severance tax upon any oil producer that extracts oil from the earth or water in the State and increasing the alcohol excise tax by five cents a drink. The Governor also announced an aggressive plan to reduce foreclosure rates by helping both borrowers and lenders modify existing home loans in ways that benefit both parties, and to prevent another mortgage crisis in the future, the Governor is prescribing changes to the way mortgages are brokered and originated to make lenders more accountable, guard against risky mortgages and prevent unsustainable bubbles.

The County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control. Neither the Authority nor the County can predict whether future State Budget legislation will further divert moneys from local government, and the effect such diversion would have on the ability of the County to pay the Lease Payments and, accordingly, the payment by the Authority of debt service on the Bonds.

Bankruptcy and Foreclosure

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and the County may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Additionally, failure by major property owners to pay property taxes when due, will have an adverse impact on revenues of the County available to pay Lease Payments, and would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the County in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed. The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both targeted and random audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds would be affected as a result of such an audit, or by an audit of similar obligations.

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the County.

Substitution and Removal of Leased Premises

The Authority and the County may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Leased Premises or release a portion of the Leased Premises from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Leased Premises for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See "THE LEASED PREMISES - Substitution of Leased Premises" herein.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the State Constitution

Article XIIIA of the State Constitution, known as Proposition 13, except under certain circumstances limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State statutes.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975/76 Fiscal Year tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation implementing Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of assessed market value.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirements that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These amendments have resulted in marginal reductions in the property tax revenues of the County. Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIB of the State Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIIIB which effectively limits the amount of such revenues those entities are permitted to spend. Article XIIIB, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIIIB also does not limit appropriation of local revenues to pay debt services on bonds existing or authorizing by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

For Fiscal Year 2007/08 the County's appropriations limit was $1.85 billion, and its actual appropriations in Fiscal Year 2007/08 subject to this limit were approximately $1.04 billion. For Fiscal Year 2008/09 the County's appropriations limit is $1.98 billion, and its budgeted expenditures subject to this limit are approximately $0.90 billion. The County is subject to and is operating in conformity with Article XIIIB.

Proposition 218

On November 5, 1996, California voters approved Proposition 218, which added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The voter approval requirements of Proposition 218 reduce the County Board of Supervisors' flexibility to deal with fiscal problems by raising revenue, and no assurances can be given that the County will be able to raise taxes in the future to meet increased expenditure requirements. At this time, the County management has determined that all current fees, taxes and assessments are in compliance with Proposition 218.

Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges. The assessments subject to the provisions of Proposition 218 include maintenance assessments imposed in County service areas and special districts. Parcel charges in 38 of the County's 57 County service areas have been classified as fees and charges, assessments or special taxes under either Article XIIIC or Article XIIID. Thirty-two County service areas require the approval of local property owners or voters for the County to continue to collect such charges. Two of the 32 County service areas which require an election to continue collecting parcel charges voted not to continue the charges and the related services have therefore terminated. The annual amount of revenues that are received by the County and deposited into the County's General Fund which may be considered to be property related fees and charges under Article XIIID is not substantial.

The County is unable to predict whether and to what extent Proposition 218 may be further 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, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges.

On September 20, 2006, an action was filed against the County (*Beutz v. County of Riverside* (RIC 457351)) challenging the validity of certain annual assessments imposed on certain residential property in the Wildomar area of the County within the Wildomar Landscape Maintenance District 2006-1. The annual assessment is being levied to pay, in part, the costs of maintenance of four County parks in the Wildomar area of the County. The plaintiff in *Beutz v. County of Riverside* was challenging the engineer's report supporting the assessment and claiming that the challenged assessment levy was void due to procedural violations of California's Landscape and Lighting Act (California Government Code Sections 22500 *et seq*.) and Articles XIIIC and XIIID of the California Constitution (commonly known as Proposition 218). On March 11, 2008, the Superior Court granted summary judgment in favor of the County and against plaintiff Beutz. Judgment was entered against the plaintiff Beutz on May 6, 2008. On July 1, 2008, the Wildomar Landscape Maintenance District 2006-1 and the four associated parks became part of the newly-incorporated City of Wildomar. Any future assessments will be imposed by the City of Wildomar on behalf of the Wildomar Landscape Maintenance District 2006-1.

On June 11, 2008, an action (*Justice v. County of Riverside* (RIC 501194)) was filed against the County challenging the validity of the County's Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan Local Development Mitigation Fee. The challenged Local Development Mitigation Fee is used to finance the acquisition of lands to protect natural ecosystems and covered species and to conserve lands necessary to implement the Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan. With certain exceptions, the fee is imposed on each residential unit or development project or portion thereof to be constructed within the fee plan area in the eastern part of the County. The plaintiff claims that imposition of the fee is unauthorized by law and violates Proposition 218 and Proposition 62. Although the County denies these allegations and is actively defending the suit, the parties are engaged in settlement negotiations to resolve the litigation. No trial date has been set.

In addition, the same plaintiff has also filed an action (*Justice v. County of Riverside* (RIC 464890)) against the County challenging an increase in the County's Coachella Valley Fringe-Toed Lizard Habitat Mitigation Fee. The challenged increased mitigation fee is used to acquire and preserve and protect natural habitat necessary to implement the Coachella Valley Fringe-Toed Lizard Habitat Conservation Plan. With certain exceptions, the fee is imposed on all development, construction, and grading projects to be constructed within the fee plan area in the eastern part of the County. The plaintiff claims that the increase in the fee is unauthorized by law and violates Proposition 218 and Proposition 62. Although the County denies these allegations and is actively defending the suit, the parties are engaged in settlement negotiations to resolve the litigation. No trial date has been set.

Other than any impact that might result 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 Lease Payments when due.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988/89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed property nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Future Initiatives

Article XIIIA, Article XIIIB, Proposition 62 and Proposition 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the County's revenues.

TAX EXEMPTION

In the opinion of Best Best & Krieger LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the proposed opinion Bond Counsel expects to deliver at the time of issuance of the Bonds is set forth in APPENDIX D hereto.

The Internal Revenue Code of 1986 (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the AFV have covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the value of, or the tax status of interest on the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes, however, that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to the Bonds, (ii) interest with respect to the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to the Bonds, may be subject to federal income taxation under Section

1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

Bond Counsel is further of the opinion that the difference between the principal amount of the Bonds (the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriter or wholesalers) at which price a substantial amount of such Discount Bonds was sold (excluding amounts stated to be interest and payable at least annually over the term of such Discount Bonds) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of such Discount Bond acquired at such initial offering price by an initial purchaser of each Discount Bond will be increased by the amount of such accrued discount.

The Code contains certain provisions relating to the accrual of original issue discount or premium in the case of purchasers of the Discount Bonds who purchase such Discount Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Discount Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Discount Bonds. All holders of the Discount Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Certain agreements, requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Bond or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Bond Counsel.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. On May 19, 2008, the United States Supreme Court overruled the decision of the Kentucky state court. The outcome of any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding this matter.

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

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

CERTAIN LEGAL MATTERS

Best Best & Krieger LLP, Riverside, California, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture and the Lease Agreement, and as to the validity of the Bonds. Certain matters will be passed upon for the Underwriter by Nossaman LLP, Irvine, California, and for the Authority and the County by County Counsel.

LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of County or Authority officials, threatened, restraining or enjoining the execution or delivery of the Bonds, the Lease Agreement, or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the County taken with respect to any of the foregoing.

FINANCIAL ADVISOR

The Authority has retained Fieldman, Rolapp & Associates, Irvine, California, as Financial Advisor (the "Financial Advisor") for the sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal or other public securities.

PROFESSIONAL FEES

In connection with the execution of the Bonds, fees payable to Best Best & Krieger LLP, as Bond Counsel, Fieldman, Rolapp & Associates, as Financial Advisor and The

Bank of New York Mellon Trust Company, N.A., as Trustee, are contingent upon the execution and delivery of the Bonds.

FINANCIAL STATEMENTS

The general purpose financial statements of the County for the Fiscal Year ending June 30, 2007, 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 herein 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. See APPENDIX B hereto.

RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") have assigned their municipal bond ratings of "AA-," "AA-" and "A2," respectively, to the Bonds. The ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody's, Fitch and S&P.

There is no assurance that any rating will continue for any given period of time for the Bonds or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. The Authority undertakes no responsibility to oppose any downward revision or withdrawal of any rating obtained. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Authority has agreed to sell the Bonds to E. J. De La Rosa & Co., Inc. (the "Underwriter"), and the Underwriter has agreed, subject to certain conditions, to purchase the Bonds. The purchase price of the Bonds is $14,518,298.10 (the principal amount of the Bonds, less an Underwriter's discount of $150,582, and less net original issue discount of $436,119.90). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any such Bonds are purchased. The public offering prices of the Bonds may be changed from time to time by the Underwriter.

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

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries and do not purport to be complete or definitive. Prospective purchasers of the Bonds are advised to refer to such documents and reports for full and complete statements of their contents. 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 Authority and the purchasers or Owners of any of the Bonds. The execution of this Official Statement and its use in connection with the offering of the Bonds for sale have been authorized by the Authority and the County.

SOUTHWEST COMMUNITIES FINANCING AUTHORITY

By: /s/ Thomas Buckley
Chairperson

COUNTY OF RIVERSIDE

By: /s/ Dean Deines
Deputy County Executive Officer

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APPENDIX A

COUNTY OF RIVERSIDE FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

TABLE OF CONTENTS

Set forth below is certain information with respect to the County. Such information was provided 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 2,088,322 as of January 1, 2008, reflecting a 2.6% increase over January 1, 2007.

The largest cities in the County are the cities of Riverside, Moreno Valley, Corona, Murrieta, Temecula, Hemet, Indio and Cathedral City. 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 of each year 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	2006	2007	2008
Banning	20,570	23,562	28,128	28,293	28,348
Beaumont	9,685	11,384	23,145	28,271	31,477
Blythe	8,428	12,155	22,179	22,636	21,695
Calimesa	-	7,139	7,415	7,420	7,536
Canyon Lake	-	9,952	10,939	10,979	11,051
Cathedral City	30,085	42,647	51,081	52,151	52,465
Coachella	16,896	22,724	35,207	38,515	40,517
Corona	76,095	124,966	144,661	146,147	147,428
Desert Hot Springs	11,668	16,582	22,011	24,907	26,068
Hemet	36,094	58,812	69,544	73,299	74,185
Indian Wells	2,647	3,816	4,865	4,945	5,025
Indio	36,793	49,116	71,654	77,208	81,512
Lake Elsinore	18,285	28,928	40,985	47,669	49,807
La Quinta	11,215	23,694	38,340	41,125	42,958
Moreno Valley	118,779	142,381	174,565	180,603	183,860
Murrieta	-	44,282	92,933	97,329	100,173
Norco	23,302	24,157	27,263	27,375	27,255
Palm Desert	23,252	41,155	49,539	49,789	50,907
Palm Springs	40,181	42,807	46,437	46,893	47,251
Perris	21,460	36,189	47,139	50,701	53,605
Rancho Mirage	9,778	13,249	16,672	16,957	17,057
Riverside	226,505	255,166	287,820	291,611	296,842
San Jacinto	16,210	23,779	31,066	34,371	35,672
Temecula	27,099	57,716	93,923	98,009	101,057
TOTALS					
Incorporated	785,027	1,116,358	1,437,511	1,497,203	1,533,751
Unincorporated	385,386	429,029	515,819	537,637	554,571
County-Wide	1,170,413	1,545,387	1,953,330	2,034,840	2,088,322
California	29,473,000	33,871,648	37,172,015	37,559,440	38,049,462

Source: U.S. Census Bureau, except that 2006, 2007 and 2008 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 security insurance and federal retirement payroll deductions. 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 2007.

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
2007			
Riverside County	35,656,620	43,490	41.8
California	765,120,982	46,275	45.6

Source: "Survey of Buying Power," Sales & Marketing Management Magazine, dated 2001, 2002, 2003 and 2004 and 2005, and Demographics USA, Trade Dimensions for 2006 and 2007.
(1) Estimated.
(2) Dollars in thousands.

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 PMSA
ANNUAL AVERAGE EMPLOYMENT[1]
(In Thousands)

INDUSTRY	2003	2004	2005	2006	2007
Agriculture	20.3	18.7	18.3	17.2	16.8
Construction	99.0	111.8	123.3	129.5	112.8
Finance Activities	42.6	45.7	49.0	51.8	50.1
Government	211.6	212.5	220.4	224.2	225.7
Manufacturing:	116.1	120.1	121.0	124.0	118.9
Nondurables	33.7	34.6	35.0	36.4	36.4
Durables	82.4	85.5	86.1	87.6	82.5
Natural Res. and Mining	1.2	1.2	1.4	1.4	1.4
Retail Trade	142.7	153.8	165.7	171.5	175.4
Prof., Educ. and other Services	378.6	399.9	416.5	436.2	446.3
Trans., Whse. & Utilities	50.1	55.5	60.2	63.8	66.7
Wholesale Trade	43.5	45.6	49.9	53.8	56.4
Inform., Pub. & Telcom.	13.9	14.0	14.5	15.2	15.2
Total, All Industries	1,119.4	1,178.7	1,240.3	1,288.4	1,285.5

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

The following table sets forth the major employers located in the County as of 2008:

COUNTY OF RIVERSIDE
CERTAIN MAJOR EMPLOYERS[1]
(2008)

Company Name	Product/Service	No. of Local Employees[2]
The County of Riverside	County Government	19,595
March Air Reserve Base	Government/Military	8,400
University of California, Riverside	College/University	6,657
Stater Brothers Markets	Grocery Retailer	6,425
Pechanga Resort & Casino	Casino/Resort	4,800
Abbott Vascular	Medical Device Manufacturer	4,500
Riverside Unified School District	Education	4,041
Riverside Community College District	Higher Education	3,753
Kaiser Permanente Riverside Med. Center	Health Care	3,200
Temecula Valley USD	Education	2,952

Source: The Business Press 2008 Book of Lists.
(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.

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

COUNTY OF RIVERSIDE
COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA

	2002	2003	2004	2005	2006	2007
County[1]	6.4%	6.3%	5.7%	5.1%	5.0%	6.2%
California[1]	6.7	6.8	6.2	5.4	4.9	5.4
United States	5.9	6.0	5.5	5.1	4.6	4.6

Source: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics.
(1) Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

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 ten 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 Towngate,Temecula Promenade Mall, and The Promenade Shops at Dos Lagos. 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 2002 through 2006, and the second quarter of the 2007 calendar year.

COUNTY OF RIVERSIDE
TAXABLE SALES TRANSACTIONS
(In Thousands)

	2002	2003	2004	2005	2006	2007*
Apparel Stores	$ 610,388	$ 746,015	$ 867,276	$ 990,129	$1,080,385	$ 278,537
General Merchandise Stores	2,237,605	2,427,411	2,756,019	3,021,908	3,250,377	775,510
Drug Stores	221,441	244,560	270,316	282,566	303,177	85,887
Food Stores	967,171	1,028,392	1,079,972	1,197,438	1,309,782	352,411
Packaged Liquor Stores	58,459	61,514	66,728	74,828	78,895	21,460
Eating and Drinking Places	1,559,215	1,713,632	1,940,610	2,157,801	2,316,422	609,956
Home Furnishing and Appliances	594,049	691,051	862,551	964,629	948,217	205,243
Building Materials & Farm Implements	1,581,792	1,868,995	2,476,092	2,756,280	2,738,153	531,087
Auto Dealers Supplies	3,314,133	3,662,151	4,179,940	4,474,566	4,326,040	1,121,085
Service Stations	1,249,646	1,536,240	1,855,263	2,277,082	2,630,716	766,392
Other Retail Stores	1,856,834	2,050,991	2,427,910	2,641,985	2,860,181	654,702
Retail Stores Total	$14,250,733	$16,030,952	$18,715,949	$20,839,212	$21,842,345	$5,402,270
All Other Outlets	5,248,261	5,678,183	6,521,199	7,417,279	7,973,892	2,043,229
Total All Outlets	$19,498,994	$21,709,135	$25,237,148	$28,256,491	$29,816,237	$7,445,499

Source: California State Board of Equalization, Research and Statistics Division.
*Note: Reflects Taxable Sales Transactions for the period of April 1, 2007 through June 30, 2007.

Building and Real Estate Activity

The two tables below are a five-year summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) since 2003.

COUNTY OF RIVERSIDE
BUILDING PERMIT VALUATIONS
(In Thousands)

	2003	2004	2005	2006	2007
RESIDENTIAL					
New Single-Family	$4,665,678.0	$5,997,514.0	$6,243,790.0	$4,409.675.8	$2,209,586.7
New Multi-Family	406,483.0	404,616.0	407,429.0	431,864.8	237,887.0
Alterations and Adjustments	106,855.0	135,178.0	164,312.0	157,167.9	141,952.4
Total Residential	$5,179,016.0	$6,537,308.0	$6,815,531.0	$4,998,708.5	$2,589,426.1
NON-RESIDENTIAL					
New Commercial	$ 360,709.0	$ 580,058.0	$ 552,665.0	$647,460.4	$ 682,416.6
New Industry	112,707.0	203,311.0	120,366.0	288,352.6	151,994.4
New Other[(1)]	261,795.0	334,002.0	344,702.0	288,768.2	239,835.3
Alterations & Adjustments	173,166.0	222,496.0	274,339.0	305,262.6	400,604.5
Total Nonresidential	$ 908,377.0	$1,339,867.0	$1,292,072.0	$1,529,843.8	$1,474,850.8
TOTAL ALL BUILDING	$6,087,393.0	$7,877,175.0	$8,107,603.0	$6,528,552.3	$4,064,276.9

Source: Construction Industry Research Board.
(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.

COUNTY OF RIVERSIDE
NUMBER OF NEW DWELLING UNITS

	2003	2004	2005	2006	2007	2008[(1)]
Single Family	25,137	29,478	29,994	20,692	9,763	2,305
Multi-Family	5,224	4,748	4,140	4,519	2,690	1,232
TOTAL	30,361	34,226	34,134	25,211	12,453	3,537

Source: Construction Industry Research Board.
(1) Through June 30, 2008.

Agriculture

Agriculture remains a leading source of income in the County. Principal agricultural products are: nursery, milk, table grapes, eggs, avocados, grapefruit, alfalfa, bell peppers, dates, and lemons. 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 2003 through 2007 is presented in the following table.

COUNTY OF RIVERSIDE
VALUE OF AGRICULTURAL PRODUCTION

	2003	2004	2005	2006	2007
Citrus Fruits	$ 84,900,100	$ 123,574,100	$ 138,244,700	$ 107,897,000	$121,387,100
Trees and Vines	216,566,200	211,936,500	188,553,200	191,321,200	181,802,100
Vegetables, Melons, Misc.	179,001,900	174,866,300	261,019,500	213,643,300	234,854,700
Field and Seed Crops	73,692,000	75,219,000	77,687,300	68,611,700	94,492,000
Nursery	205,846,300	211,271,200	229,210,200	270,992,800	272,326,200
Apiculture	3,520,600	2,951,300	2,736,800	3,554,300	3,948,900
Aquaculture Products	15,931,600	15,579,100	13,367,300	13,367,300	9,829,200
Total Crop Valuation	$ 779,458,700	$ 815,397,500	$ 910,819,000	$ 869,387,600	$918,640,200
Livestock and Poultry Valuation	287,908,600	316,207,700	257,852,100	234,903,400	338,938,600
Grand Total	$1,067,367,300	$1,131,605,200	$1,168,671,100	$1,104,291,000	$1,257,578,800

Source: Riverside County Agricultural Commissioner.

Transportation

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 with the eastern part linking to the County's desert cities and Arizona. 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, Metrolink provides commuter rail service to Los Angeles, San Bernardino and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with stops in Riverside and 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 Reserve 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 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 school 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 June 4, 2008, the Governor of the State issued an Executive Order proclaiming a statewide drought, citing below normal rainfall in 2007 and 2008, and called on all Californians to conserve water. The Governor is currently promoting an $11.9 billion bond proposal to address population growth, climate change, water supply reliability and environmental needs.

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 Water District, 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 un-sewered 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 makes adjustments during the course of the fiscal year to reflect revenue, as realized, and to record changes in 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 the end of the first, second and third quarters.

Fiscal Year 2007-08 Final 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 basic County services including public protection, health and sanitation, and public assistance. These three areas comprise approximately 78% 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 38% of the County's General Fund revenue consists of payments from the State and 18% 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 30% 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 ½ cent sales tax for public safety statewide. Sales tax receipts for the County from this ½ cent levy were $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 and $146.1 million in Fiscal Year 2006-07. Public safety sales tax receipts for the County are budgeted at $155.0 million in Fiscal Year 2007-08, although current estimates are that about $145 million will be received.

As of June 30, 2007, fund balance for the General Fund was $423 million, or 17% of the total General Fund expenditures. This amount includes $89.4 million of reserved fund balance and $333.6 million of designated fund balance.

Fiscal Year 2008-09 Final Budget

The County adopted its Fiscal Year 2008-09 Final Budget on July 1, 2008. This budget approved total General Fund appropriations of $2.6 billion. Such appropriations are for primary County services including public protection, health and sanitation, and public assistance. These three areas comprise approximately 88.4% 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 2008-09, approximately 40% of the County's General Fund revenue 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 29% 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 10% per year, for the last five years, and are estimated to reach $158.7 million in fiscal year 2008-09. Sales tax receipts for the County are estimated at $38.0 million in fiscal year 2008-09.

As of June 30, 2008, fund balance for the General Fund was $382 million or 15% of the total General Fund expenditures. This amount includes $75 million of reserved fund balance and $307 million of designated fund balance.

Although the County budget for the 2008-09 fiscal year reflects a 4.7% reduction in discretionary revenues over the prior fiscal year, due in part to decreased anticipated property tax revenue for the 2008-09, the County's General Fund budget expenses for the fiscal year 2007-08 increased 2.2% from the prior fiscal year, supported by transfers from reserves and designations. The County has built up its reserves and designations balance over the past several years, to approximately $308.3 million for the 2008-09 fiscal year.

On October 28, 2008, the Board of Supervisors of the County adopted the County Executive Officer's Fiscal Year 2008-09 First Quarter Budget Report (the "Budget Report"). The Budget Report acknowledges the challenging financial climate confronting the nation, the State and the County. Specifically, the Budget Report estimates that the County will experience a net property tax reduction of approximately $2.9 million from the budget adopted by the County at the start of the current fiscal year. Other measures of economic activity in the County such as building permits and sales tax receipts are also declining from year earlier figures. To address future revenue reductions, the County Executive Officer has requested detailed budget projections from department heads with the objective of reducing general fund expenditures in future years. To mitigate future revenue shortfalls, the County plans to reduce general fund expenditures by 25% over a four year period, commencing with a 5% reduction in Fiscal Year 2008-09, 10% in Fiscal Year 2009-10, 6.3% in Fiscal Year 2010-11, and approximately 3.4% in Fiscal Year 2011-12. The County's projections are subject to revision in light of future economic conditions.

The Budget Report also makes various appropriation and expenditure adjustments based on changes since the adoption of the County's budget. Following such adjustments, the

County's contingency fund balance is approximately $29 million, or four percent of discretionary revenue.

Budget Comparison

The following table compares the County's final General Fund 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(1)
FISCAL YEARS 2004-05 THROUGH 2008-09
(In Millions)

	Final 2004-05 Budget	Final 2005-06 Budget	Final 2006-07 Budget	Final 2007-08 Budget	Final 2008-09 Budget
REQUIREMENTS					
General Government	$ 143.9(4)	$ 175.5	$ 217.58	$ 279.30	$ 238.6
Public Protection	751.7	815.5	947.66	1,032.48	1,132.0
Public Ways and Facilities	--	4.5	6.62	6.79	2.1
Health and Sanitation	392.9	394.3	381.17	410.68	392.3
Public Assistance	575.5	640.7	663.05	721.38	791.1
Education	.3	.3	0.39	0.49	0.6
Recreation and Cultural	.2	.2	0.31	0.29	0.3
Debt Retirement-Capital Leases	61.3	34.9(6)	10.87	14.82	22.3
Contingencies	16.5	20.0(6)	32.08	32.15	34.8
Increase Reserves	15.2	23.8	6.15	8.92	5.0
Total Requirements	$ 1,957.5	$ 2,109.7	$ 2,265.88	$ 2,507.30	$2,619.1
AVAILABLE FUNDS					
Beginning Unrestricted Fund Balance	$ 59.3(5)	$ 62.1(5)	$ 22.66	$ 33.43	$107.1(5)
Estimated Revenues:					
Property Taxes(2)	118.8	165.6	214.16	262.61	287.2
Other Taxes(2)	41.3	58.6	77.54	71.06	49.1
Licenses, Permits and Franchises	23.9	23.1	29.71	31.63	24.9
Fines, Forfeitures and Penalties	46.2	46.1	48.26	51.99	60.6
Use of Money and Properties	15.2	24.3	53.51	53.16	29.7
Aid from Other Governmental Agencies:					
State	681.3	755.1	842.83	938.46	991.8
Federal	380.2	418.9	415.25	444.70	465.4
Charges for Current Services	336.3	361.0	424.61	462.26	385.1
Other Revenues(3)	255.0	194.9(6)	137.33	158.01	217.9
Total Available Funds	$ 1,957.5	$ 2,109.7	$ 2,265.86	$ 2,507.30	$2,618.8(7)

Source: County Auditor-Controller.
(1) Excludes mid-year amendments or adjustments.
(2) Due to reporting changes, Teeter Plan available funds were included with Property Taxes in the 2004-05 Budget, the 2005-06 Budget and the 2008-09 Budget, and included with Other Taxes in the 2006-07 Budget and the 2007-08 Budget.
(3) Includes payments and reimbursements for programs which fund disproportionate share hospitals (DSB and SB 1255).
(4) Variances between Fiscal Years are the result of reclassification of certain subcategories.
(5) Includes reserves used.
(6) Variances between Fiscal Years are due to a reclassification of CORAL fund.
(7) The adopted 2008-2009 budget anticipates a $300,000 deficit.

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 Authority or the Underwriter. 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 August 31, 2008, the portfolio assets comprising the PIF had a market value of $4,996,192,147.86.

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, 2008, 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 84% of the funds on deposit in the County Treasury, while approximately 16% 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 August 31, 2008, were as follows:

	Market Value	**% of Pool**
Federal Agency Securities	$ 3,536,793,306	70.79%
Cash Equivalents & Money Market Funds	414,837,838	8.30
Commercial Paper	372,546,758	7.46
Negotiable Certificates of Deposit	259,873,595	5.20
Medium Tem Notes	279,132,383	5.59
Municipal Bonds	126,288,268	2.53
Certificates of Deposit(1)	0	0.00
Local Agency Obligations(2)	6,720,000	0.13
Total	$4,996,192,148	100.00%

Weighted Average Yield: 3.02%
Weighted Average Maturity: 1.11 years

Source: County Treasurer-Tax Collector.
(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 August 31, 2008, the market value of the PIF was 99.98% 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 2008-09.

COUNTY OF RIVERSIDE
SECURED PROPERTY TAX ROLL
AD VALOREM PROPERTY TAXES – LEVIES AND COLLECTIONS(1)
(Fiscal Years 1996-97 through 2008-09)

Fiscal Year	Secured Property Tax Levy	Current Levy Delinquent June 30	Percentage of Current Taxes Delinquent June 30(2)	Total Collections(3)	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	180,175,146	7.04	2,532,293,674	98.94
2007-08	2,964,341,768	255,672,935(4)	8.62(4)	2,928,205,634(4)	98.78(4)
2008-09	3,029,936,136	N/A	N/A	N/A	N/A

Source: County Auditor-Controller.
(1) The Levy and Collection data reflects the 1% levy allowed under Article XIIIA of the State 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) 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.
(3) Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.
(4) Estimated.

COUNTY OF RIVERSIDE
UNSECURED PROPERTY TAX ROLL[1]
AD VALOREM PROPERTY TAXES – LEVIES AND COLLECTIONS
Fiscal Years 1996-97 through 2008-09

Fiscal Year	Unsecured Property Tax Levy	Total Collections[2]	Percentage of Total Collections to Original Levy
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	54,911,981	97.23
2004-05	61,359,545	58,253,834	94.94
2005-06	67,010,790	65,220,783	97.88
2006-07	71,315,299	70,418,974	98.74
2007-08	79,265,231	75,566,558[3]	95.33[3]
2008-09	88,531,578	N/A	N/A

Source: County Auditor-Controller.

(1) The Levy and Collection data reflects the 1% levy allowed under Article XIIIA of the State 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) Estimated

The following table describes the supplemental tax roll of the County for Fiscal Year 1995-96 through Fiscal Year 2007-08:

COUNTY OF RIVERSIDE
SUMMARY OF SUPPLEMENTAL ROLL
AD VALOREM PROPERTY TAXATION – LEVIES AND COLLECTIONS
Fiscal Years 1995-96 through 2007-08

Fiscal Year	Tax Levy for Increased Assessments(1)	Refunds for Decreased Assessments(1)	Net Tax Levy	Collections(1)(2)
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	81,055,987	2,060,886	78,995,102	72,892,196
2003-04	107,873,487	2,072,831	105,800,656	92,039,986
2004-05	201,364,003	2,048,421	199,315,582	151,778,352
2005-06	334,571,225	1,818,236	332,752,989	248,929,219
2006-07	344,014,168	2,948,680	341,065,488	301,767,959
2007-08(3)	171,506,667	9,019,397	162,487,270	214,671,863

Source: County Auditor-Controller/County Treasurer and Tax Collector.
(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.
(3) Estimates only.

The following table sets forth the assessed valuation by category and property type for Fiscal Year 2003-04 through Fiscal Year 2008-09.

COUNTY OF RIVERSIDE
ASSESSED VALUATION HISTORY BY CATEGORY AND PROPERTY TYPE(1)
Fiscal Years 2003-04 through 2008-09
(In Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Secured Property						
Land	$ 38,580	$ 44,284	$ 52,819	$ 66,302	$ 77,403	$ 82,908
Structures	77,044	89,242	107,234	130,830	155,847	152,908
Personal Property	720	810	783	803	1,476	1,510
Utilities	2,076	2,080	2,286	2,614	2,807	3,154
Total Secured(2)	$118,420	$136,416	$163,122	$200,549	$237,173	$240,480
Unsecured Property						
Land	$ 6	$ 5	$ 4	$ 3	$ 3	$ 3
Improvements	2,263	2,465	2,709	2,839	3,195	3,682
Personal Property	2,736	3,050	3,308	3,571	3,976	4,338
Total Unsecured(2)	$ 5,005	$ 5,520	$ 6,021	$ 6,413	$ 7,174	$ 8,023
Grand Total	$123,425	$141,936	$169,143	$206,962	$244,347	$248,503

Source: County Auditor-Controller/County Assessor.

(1) Assessed valuation is reported as of July 1 of each year at 100% of full taxable value. Pursuant to Article XIIIA of the State Constitution (Proposition 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.

(2) Represents total of categories set forth above; does not represent total tax roll values.

Housing prices in the County declined in 2007 and are expected to continue to decline in 2008. During calendar year 2007, mortgage holders had sent 29,874 notices of default with respect to properties located within the County compared to 11,776 during calendar year 2006, and 12,000 trustee deeds had been recorded during calendar year 2007 (indicating that the property has been lost to foreclosure), compared to 1,727 during calendar year 2006. During the first three quarters (January though September) of calendar year 2008, mortgage holders sent 39,341 notices of default and recorded 26,208 trustee deeds compared to 20,532 notices of default sent and 7,479 trustee deeds recorded in the first three quarters of calendar year 2007.

These events are related to declines in the real estate market in general and the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide. In the State, the greatest impacts to date are in regions of the Central Valley and the Inland Empire, in which the County is located. In response to these conditions, for FY 2008-09, the County Assessor proactively reviewed all residential properties and made applicable adjustments to bring the tax roll in line with current (depressed) values, without waiting for tax payers to file an appeal. The Fiscal Year 2008-09 budget incorporates these Prop 8 reductions. The total Fiscal Year 2008-09 reductions of $16.2 billion have offset a majority of the value increases recorded during the prior year.

After giving affect to the foregoing adjustments, as well as to projected collections under the Teeter Plan (described below) and to the stabilizing effects of Proposition 13, the County projects no growth in assessed value for Fiscal Year 2008-09, and a 5% assessed valuation reduction for Fiscal Year 2009-2010.

Property Tax Appeals. The County has received assessment appeals applicable to Fiscal Year 2007-08 totaling approximately $2 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 $393 million of assessed value, representing $3.93 million in general purpose taxes, was reduced from the County tax roll for Fiscal Year 2005-06 and Fiscal Year 2006-07. The majority of appeals applicable to Fiscal Year 2005-06 have been completed. The remainder of the Fiscal Year 2006-07 and the Fiscal Year 2007-08 assessment appeals are expected to be completed by June 1, 2009.

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 2007-08 budget will be determined primarily by three components: (i) the remainder of the Fiscal Year 2006-07 and Fiscal Year 2007-08 assessment appeals still to be completed; (ii) approximately 36% of the Fiscal Year 2007-08 appeals being completed during Fiscal Year 2007-08; and (iii) additional assessment revenue which the County Assessor projects will be billed during a fiscal year and reduce the impact of the appeals related to such fiscal year.

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. In Fiscal Year 2006-07, approximately 74% of all taxing entities participated in the Teeter Plan.

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. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the first alternative, at $22.1 million as of June 30, 2008. 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 November 5, 2007, of County of Riverside Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Notes") in the amount of $168.4 million. The approximately $168.4 million was comprised of approximately $136 million representing Fiscal Year 2006-2007 delinquent property taxes and $32.4 million representing prior years' delinquent property taxes. The Bank of Nova Scotia is the letter of credit provider of 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 letter of credit will expire on November 5, 2012.

Largest Taxpayers

The following table shows the 25 largest taxpayers by individual tax levied in the County for Fiscal Year 2007-08.

COUNTY OF RIVERSIDE
TWENTY-FIVE LARGEST TAXPAYERS IN FISCAL YEAR 2007-08
SECURED AND UNSECURED ASSESSMENTS

Taxpayer	Total Taxes Levied	Percentage of Total Tax Charge
CENTEX HOMES	$13,896,175.63	0.46%
SOUTHERN CALIF EDISON COMPANY	12,523,657.60	0.42
VERIZON CALIFORNIA INC	8,944,490.24	0.30
KB HOME COASTAL INC	7,971,552.14	0.27
LENNAR HOMES OF CALIF INC	6,106,115.84	0.20
PULTE HOME CORP	4,704,578.45	0.16
STANDARD PACIFIC CORP	4,682,700.17	0.16
SOUTHERN CALIF GAS COMPANY	4,446,401.60	0.15
KSL DESERT RESORT	4,442,154.44	0.15
WESTERN PACIFIC HOUSING INC	3,605,023.03	0.12
PARDEE HOMES	3,270,678.61	0.11
RYLAND HOMES OF CALIF INC	3,100,833.89	0.10
ASHBY USA	3,020,337.70	0.10
DS HOTEL	2,931,909.08	0.10
BEAZER HOMES HOLDINGS CORP	2,631,284.28	0.09
BLYTHE ENERGY LLC	2,569,619.16	0.09
INLAND EMPIRE ENERGY CTR LLC	2,530,155.20	0.08
COSTCO WHOLESALE CORP	2,341,669.36	0.08
TYLER MALL LTD PARTNERSHIP	2,305,759.94	0.08
BRE PROP INC	2,205,843.56	0.07
LOWES HIW INC	2,162,051.04	0.07
MW HOUSING PARTNERS III	2,109,148.28	0.07
DOS LAGOS LIFESTYLE CENTER	1,994,553.94	0.07
WALGREEN CO	1,980,317.80	0.07
WAL MART REAL ESTATE BUS. TRUST	1,944,580.42	0.06
TOTAL	$108,421,591.40	3.61%

Source: County Treasurer and Tax Collector.

The 10 largest taxpayers in the County by assessed value for all properties, for the Fiscal Year 2007-08 are shown below.

COUNTY OF RIVERSIDE
TEN LARGEST TAXPAYERS IN FISCAL YEAR 2007-08
BY ASSESSED VALUE

ASSESSEE	ASSESSED VALUE
Centex Homes	$659,709,523
KSL Desert Resort	381,014,226
KB Home Coastal Inc.	334,953,028
Lennar Homes of California Inc.	316,585,434
Pulte Home Corp.	306,626,601
DS Hotel	257,455,433
Standard Pacific Corp.	251,748,931
Kaiser Foundation Hospitals	235,645,113
Western Pacific Housing Inc.	213,138,412
Eisenhower Memorial Hospital	208,109,780
Total	$3,200,986,481

Source: County Treasurer and Tax Collector.

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 2006-07, the County retained approximately 12.3% of the total amount collected (and is budgeted to retain 12.2% in Fiscal Year 2007-08). 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 on a portion of the taxes generated in a project area including: 1) on the "frozen" tax base; 2) for project areas adopted prior to January 1, 1994, local taxing authorities may receive an additional amount based on any negotiated agreements with redevelopment agencies to receive a share of tax increment proceeds; and, 3) for project areas adopted after January 1, 1994, local taxing authorities receive a pass-through payment based on statutory rules pursuant to section 33607.5 of the California Health and Safety Code.

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 2008-09

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	352,904,769
2005-06	14,682,893,563	42,414,898,724	427,668,011
2006-07	14,555,513,591	52,411,876,802	529,173,451
2007-08	15,259,109,791	62,845,258,807	634,701,584
2008-09	15,257,041,079(4)	66,035,834,187	634,702,096(3)

Source: County Auditor-Controller.

(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 available 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 2007-08

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, 2007, the County Redevelopment Agency had a total land area of 71,718 acres and a base year assessed value, including State-owned land, of $2,966,434,812. The loss in tax revenue to the County General Fund as a result of the County Redevelopment

Agency in Fiscal Year 2007-08 is estimated at approximately $10,652,177 (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 2006-07 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, 2007.

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, 2007, which are included in APPENDIX B – THE COUNTY OF RIVERSIDE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007.

COUNTY OF RIVERSIDE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN UNRESERVED FUND BALANCES – GENERAL FUND
FISCAL YEARS 2002-03 THROUGH 2006-07
(In Thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07
BEGINNING FUND BALANCE	$ 216,561[1]	$ 220,209[1]	$ 249,053	$ 339,321[1]	$ 446,918
REVENUES					
Taxes	160,220	193,329	219,420	273,493	301,573
Licenses, permits and franchises	15,411	19,964	22,157	21,569	25,803
Fines, forfeitures and penalties	36,899	42,905	70,023	62,305	81,148
Use of money and property – Interest	12,893	8,724	21,126	42,826	62,848
Use of money and property – Rents and concessions	966	1,359	4,253	4,131	2,805
Government Aid – State	657,085	673,403	660,761	785,390	893,390
Government Aid – Federal	373,766	373,146	395,655	395,105	430,606
Governmental Aid-Other	46,099	46,750	55,661	69,042	81,703
Charges for current services	237,987	263,107	293,581	326,066	319,198
Other revenues	56,504	55,260	82,334	13,936	38,856
TOTAL REVENUES	$1,597,830	$1,677,947	$1,824,971	$1,993,863	$2,237,932
EXPENDITURES					
General government	$ 133,476	$ 101,429	$ 105,992	123,716	119,365
Public protection	611,014	674,389	742,550	798,035	916,524
Public ways and facilities	--	--	3,430	3,930	4,405
Health and sanitation	338,265	362,010	279,472	337,139	341,467
Public assistance	520,345	536,275	569,412	588,928	644,912
Education	343	337	332	349	394
Recreation and cultural	194	181	175	203	203
Capital Outlay	8,435	1,008	6,616	7,929	8,811
Debt service	9,527	14,454	36,119	33,576	29,751
TOTAL EXPENDITURES	$1,621,599	$1,690,083	$1,744,098	$1,893,805	$2,065,932
Excess (deficit) of revenues over (under) expenditures	(23,769)	(12,136)	80,873	100,058	172,000
OTHER FINANCING SOURCES (USES)					
Transfer from other reserves	$ 35,523	$ 60,999	$ 69,014	$ 103,586	$ 89,449
Transfer to other funds	(18,172)	(21,027)	(53,102)	(104,172)	(146,214)
Capital Leases	8,435	1,008	6,616	8,125	8,811
Total other Financing Sources (Uses)	25,786	40,980	22,528	7,539	(47,954)
NET CHANGE IN FUND BALANCES	2,017	28,844	103,401	107,597	124,046
Residual Equity Transfer In (Out)	--	--	--	--	--
FUND BALANCE, END OF YEAR	218,578	249,053	352,454	446,918	570,964
Less:					
Reserved Fund Balance	103,489	100,940	121,249	100,436	88,233
Designated Fund Balance	89,011	70,361	185,014	277,833	339,773
UNDESIGNATED UNRESERVED FUND BALANCE	$ 26,078	$ 77,752	$ 46,191	$ 68,649	$ 142,958

Source: County Auditor-Controller.
(1) Beginning unreserved fund balance does not equal prior year ending unreserved fund balance due to an equity restatement.

COUNTY OF RIVERSIDE
GENERAL FUND BALANCE SHEETS
AT JUNE 30, 2003 THROUGH JUNE 30, 2007
(In Thousands)

	2003	2004	2005	2006	2007
ASSETS:					
Cash & Marketable Securities	$ 44,433	$ 65,681	$184,723	$257,077	$ 283,080
Taxes Receivable	4,336	4,367	20,679	19,939	40,766
Accounts Receivable	4,534	21,472	37,177	43,255	60,621
Interest Receivable	3,026	4,078	9,214	9,124	14,673
Advances to Other Funds	7,766	5,646	40	20	37
Due from Other Funds	12,369	8,892	8,435	5,895	5,417
Due from Other Governments	172,459	214,319	195,064	206,270	252,411
Inventories	865	2,979	1,801	1,806	1,540
Restricted Assets	189,143	230,390	436,555	228,897	263,390
Total Assets	$438,931	$557,824	$893,688	$772,283	$921,935
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts Payable	$ 47,834	$ 70,790	$ 86,713	$ 85,857	$ 82,441
Salaries & Benefits Payable	35,670	46,367	52,805	63,119	70,585
Due To Other Funds	3,627	945	4,928	1,189	288
Due to Other Governments	15,248	19,663	45,057	35,017	41,432
Due to Third Parties	--(1)	--(1)	--(1)	--(1)	--(1)
Deferred Revenue	117,954	170,981	133,742	140,101	156,155
Deposits Payable	20	25	67	82	70
Bonds & Notes Payable	--(1)	--(1)	217,922	--(1)	--(1)
Total Liabilities	$220,353	$308,771	$541,234	$325,365	$ 350,971
FUND BALANCE:					
Reserved	$103,489	$100,940	$121,249	$100,436	$ 88,233
Unreserved	115,089	148,113	231,205	346,482	482,731
Fund Balance	$218,578	$249,053	$352,454	$446,918	$ 570,964
Total Liabilities and Fund Balance	$438,931	$557,824	$893,688	$772,283	$ 921,935

Source: County Auditor-Controller.
(1) No activity to report.

Long-Term Obligations of County

During its 115 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 October 27, 2008.

COUNTY OF RIVERSIDE
ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS
(as of October 27, 2008)

2008-09 Assessed Valuation:	$239,495,914,020	(includes unitary utility valuation)
2007-08 Adjusted Assessed Valuation:	$176,550,233,143	(includes unitary utility valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 10/1/08	
Metropolitan Water District	7.223%	$ 23,634,739	
Community College Districts	1.422-99.999	486,033,075	
Unified School Districts	2.879-100.	1,553,308,661	
Perris Union High School District	100.	57,412,260	
Union School Districts	100.	41,513,493	
City of Corona	100.	1,150,000	
City of Riverside	100.	17,940,000	
Eastern Municipal Water District Improvement Districts	100.	17,635,000	
Elsinore Valley Municipal Water District Improvement District No. U2	100.	815,000	
Coachella County Water District Improvement Districts	100.	9,105,000	
Rancho California Water District, Rancho and Santa Rosa Divisions	100.	4,250,000	
Riverside County Flood Control, Zones 4-2 B and 3-B Benefit Assessment Districts	100.	3,225,000	
San Gorgonio Memorial Hospital District	100.	50,000,000	
Other Special Districts	100.	2,500	
Community Facilities Districts	94.268-100.	2,961,713,510	
Riverside County 1915 Act Bonds	100.	34,505,317	
City and Special District 1915 Act Bonds (Estimated)	100.	278,481,831	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$5,540,725,386	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Riverside County General Fund Obligations	**100. %**	**$ 701,119,356**	(2)
Riverside County Pension Obligations	**100.**	**387,995,000**	
Riverside County Board of Education Obligations	100.	9,275,000	
School Districts General Fund and Lease Tax Obligations	2.879-100.	615,583,190	
City of Corona General Fund Obligations	100.	74,250,000	
City of Moreno Valley General Fund Obligations	100.	83,070,000	
City of Murrieta General Fund Obligations	100.	17,255,000	
City of Palm Springs Certificates of Participation and Pension Obligations	100.	130,713,588	
City of Riverside Certificates of Participation	100.	197,665,000	
City of Riverside Pension Obligations	100.	142,170,000	
Other City General Fund and Special Tax Obligations	100.	118,624,800	
Other Water District Certificates of Participation	0.312-100.	8,393,704	
Other Special District Certificates of Participation	100.	3,975,000	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,490,089,638	
Less: **Riverside District Court Financing Corporation (100% self-supporting from U.S. General Services Administration)**		**17,504,083**	
Perris Union High School District and Hemet Unified School District self-supporting obligations		5,551,500	
Other Special District self-supporting bonds (self-supporting from enterprise revenues)		7,020	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,467,027,035	
GROSS COMBINED TOTAL DEBT		$8,030,815,024	(3)
NET COMBINED TOTAL DEBT		$8,007,752,421	

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

Ratios to 2007-08 Assessed Valuation:
Overlapping Tax and Assessment Debt 2.31%

Ratios to Adjusted Assessed Valuation:
Combined Gross Direct Debt ($1,089,557,556) 0.62%
Combined Net Direct Debt ($1,071,610,273)................................. 0.61%
Gross Combined Total Debt 4.55%
Net Combined Total Debt 4.54%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $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, 2008, the County's current outstanding lease obligations total $699,551,036. The County's annual lease obligation is approximately $62,733,423 and the maximum annual lease payment is $74,803,967.

The following table summarizes the County's outstanding lease obligations and the respective annual lease requirements as of June 30, 2008.

COUNTY OF RIVERSIDE
SUMMARY OF LEASE RENTAL OBLIGATIONS
PAYABLE FROM THE COUNTY'S GENERAL FUND
(As of June 30, 2008)

	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	$82,900,000	$10,775,000[2]
County of Riverside Sublease to Cal. Health Facilities Financing Authority, 1986 Series B Bonds	2011	10,210,000	2,881,881	998,340
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	69,275,000	
2003 Series A & B	2009	60,180,000	11,030,000	18,907,729[3]
County of Riverside 1990 Taxable Variable Rate Certificates of Participation (Monterey Avenue)	2020	8,800,000	6,500,000	871,500[4]
Riverside County Palm Desert Financing Authority Lease Revenue Bonds, 2003 Series A	2033	22,310,000	20,365,000	1,479,110
County of Riverside Certificates of Participation (Historic Courthouse Project):				
2003 Series A	2033	13,190,000	12,670,000	873,445
2005 Series B[5]	2027	22,610,000	21,470,000	1,436,652
County of Riverside Court Financing Corporation (Bankruptcy Courthouse Acquisition Property)	2027	18,000,000	12,680,000	1,446,890
County of Riverside Certificates of Participation[6] (1998 Larson Justice Center Refunding)	2021	36,100,000	25,000,000	2,488,775
Riverside District Court Financing Corporation (United States District Court Project):				
Series 1999	2020	24,835,000	16,784,082	
Series 2002	2020	925,000	700,000	1,802,478[7]
County of Riverside Leasehold Revenue Bonds (Southwest Justice Center Project Series 2000 A/B	2032	94,245,000	88,120,000	6,281,691
County of Riverside Certificates of Participation (County Administrative Center Annex Project)	2031	38,075,000	34,710,000	2,532,406
County of Riverside Refunding Certificates of Participation (Capital Facilities Project) 2003 Series B[8]	2018	8,685,000	5,405,000	1,018,620
County of Riverside Certificates of Participation (2005 Series A Capital Improvement and Family Law Court Refunding Project) [9]	2036	51,655,000	50,225,000	3,413,238
County of Riverside Certificates of Participation (2006 Series A Capital Improvement Projects)	2037	34,675,000	34,675,000	2,164,444
County of Riverside Certificates of Participation) [10] (2007 A/B Public Safety Communication and Refunding Projects	2022	111,125,000	109,340,000	6,243,105
TOTAL		$966,335,073	$699,551,036	$62,733,423

Source: County Executive Office.
(1) Annual base rental for Fiscal Year 2008-2009 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, 2008 was approximately 2.79%.
(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 4.26%.
(5) The 2005 Series B Historic Courthouse Refunding Project refunded the 1997 Historic Courthouse Project.
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(6) The 1998 Larson Justice Center Refunding Project refunded the 1994 Desert Justice Center Project.
(7) Total annual base rental for Riverside District Court Financing Corporation (United States District Court Project).
(8) The 2003 Series B refunded the 1993 Master Refunding Project.
(9) 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).
(10) The 2007 Series B refunded the 1997 Lease Refunding Projects

Additional Obligations

The County has current plans to execute a lease agreement with County of Riverside Asset Leasing Corp. (CORAL) which is issuing its Variable Rate Demand Leasehold Revenue Refunding Bonds, Series 2008A (Southwest Justice Center Refunding) in the approximate principal amount of $80 million to refund its Adjustable Rate Revenue Bonds, Series 2000B (Southwest Justice Center Project). In addition, the County currently plans to enter into a lease agreement with the Riverside County Palm Desert Financing Authority pursuant to which the County will be obligated to pay up to an aggregate principal amount of approximately $76 million, in connection with lease revenue bonds to be issued to finance the construction, installation, acquisition, development and rehabilitation of certain public capital improvements within the County, including the Palm Desert sheriff's station facilities. The County also intends to issue its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B in an aggregate principal amount not to exceed $186 million which will be payable from draws on a letter of credit and certain pledged taxes; and its Teeter Obligation Taxable Commercial Paper Notes, Series C in an approximate maximum principal amount of $85 Million which is payable from the County General Fund. The County currently expects to complete such financings prior to December 31, 2008. The County also has current plans to issue certificates of participation in an estimated principal amount of $37.4 million in connection with the fixed rate refunding of certificates of participation issued in 2007 as auction rate securities. This transaction is anticipated to be completed in January 2009.

Interest Rate Swap Agreements

The County adopted a written interest rate swap policy (the "Swap Policy") establishing the guidelines for the use of management of interest rate swaps as a method of lowering financing costs and reducing the risks associated with fluctuations in interest rates. The Swap Policy is adopted annually to provide the appropriate internal framework to ensure that consistent objectives, practices, controls and authorizations are maintained to minimize the County's risk related to its debt portfolio.

On May 24, 2000, the County entered into a rate swap agreement with Citigroup Financial Products, Inc. (the "Swap Provider") in connection with the issuance of the County of Riverside Leasehold Revenue Bonds (Southwest Justice Center Project) Series 2000B (the "Series 2000B Bonds") in the amount of $76.3 million. The Series 2000B Bonds and the swap agreement mature on November 1, 2032. Pursuant to this swap agreement, the County pays the Swap Provider a fixed payment at the rate of 5.20% and receives from the Swap Provider an amount equal to the weighted average variable interest rate payable on the outstanding Series 2000B Bonds. The Swap Provider was rated Aa3 by Moody's and AA- by Standard & Poor's as of April 21, 2008. Downgrade provisions specify that if the long-term senior unsecured debt rating of Citigroup is withdrawn, suspended or falls below A- (in the case of S&P) or A3 (in the case of Moody's), a collateral agreement will be executed within 30 days. The interest rate swap is terminable at any time at the option of the County at its fair value. If at the time of termination, the swap has a negative fair value, then the County would be liable to the Swap Provider for such amount.

As of June 30, 2007, the swap agreement had a negative fair value of $13,002,751.

The obligation of the County to make payments to the Swap Provider, including termination payment under the Swap Agreement is an obligation of the County payable from any source of available funds. Under certain circumstances, the Swap Agreement is subject to termination and the County may be required to make a substantial termination payment to the Swap Provider depending upon the then current fair value of the Swap Agreement. The County has no intent of terminating the swap agreement at this time, but is monitoring the credit condition of the Swap Provider.

Employees

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

COUNTY OF RIVERSIDE
REGULAR EMPLOYEES
1996 through 2008

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	17,584
2008[3]	18,912

Source: County Auditor-Controller.
(1) Excludes temporary and per diem employees.
(2) Reduction in regular employees due to court employees becoming State employees.
(3) As of August 13, 2008.

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 agreement with RSA for the Law Enforcement Unit will extend through January 31, 2011. 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, 2012. 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 May 12, 2008 (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 2008 covered PERS' Fiscal Year 2006-07). 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, 2007, which was prepared in October 2008, will be effective during the County's Fiscal Year 2009-10). 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. 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, 2007, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 18.605% be implemented as the required rate for Fiscal Year 2009-10, which the County anticipates will result in a contribution to PERS of approximately $43.96 million for that Fiscal Year. In addition, the County will pay to PERS approximately $18.73 million in County Offsets of Employee Contributions for Fiscal Year 2009-10, which will result in a total contribution by the County to PERS for the Safety Plan for Fiscal Year 2009-10 of approximately $62.69 million. In the actuarial valuation for the Miscellaneous Plan as of June 30, 2007, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 11.999% be implemented as the required rate for Fiscal Year 2009-10, which the County anticipates will result in a contribution to PERS of approximately $99.60 million for that Fiscal Year. In addition, the County will pay to PERS for the Miscellaneous Plan approximately $41.08 million in County Offsets of Employee Contributions for Fiscal Year 2009-10, which will result in a total contribution by the County to PERS for the Miscellaneous Plan for Fiscal Year 2009-10 of approximately $140.68 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 $125 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 generated $2 million in cash-flow benefit to the County, which affected and is reflected in the June 30 2006 valuation. On June 28, 2007 and again on June 23, 2008, pursuant to recommendations set forth in the PARC Report, the Board of Supervisors authorized the second and third transfers to PERS of $6.5 million for each transfer from the liability management fund established in connection with the 2005 Pension Obligation Bonds to reduce the County’s PERS liability.

In 2008, the County issued $232.8 million in Tax and Revenue Anticipation Notes through the California Statewide Communities Development Authority Pool, plus an additional $82.2 of tax-exempt Tax and Revenue Anticipation Notes (the “2008 Tax-Exempt TRANS”), the proceeds of which will be used to prepay a portion of the County’s PERS contributions for Fiscal Year 2008-09.

The effect of such prepayments on the County’s UAAL, if any, 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, 2007 and the total employer contributions made by the County for Fiscal Year 2002-03 through Fiscal Year 2009-10. 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	58,201,798	94.8	2007-08	42,712,207	16,217,716
2006	61,861,506	100.2	2008-09	46,983,428[4]	17,839,488[4]
2007	78,113,619	108.6	2009-10	49,372,599[4]	18,731,462[4]

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2007 (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 2008-09.

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
2000	($439,896,678)	137.3%	2002-03	$17,680,344	$26,726,710
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	88,824,408	37,106,508
2006	142,160,688	100.4	2008-09	95,930,361[4]	40,075,029[4]
2007	135,212,288	110.3	2009-10	98,328,620[4]	41,076,905[4]

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2007 (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 2008-09.

An eight-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)
2000	$686,413,863	$777,090,314	($ 90,676,451)	113.2%	$119,551,961	(75.8%)
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
2006	1,231,954,415	1,170,092,909	61,861,506	95.0	189,606,339	32.6
2007	1,369,534,165	1,291,420,546	78,113,619	94.3	214,634,238	36.4

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2007.

(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)
2000	$1,177,942,955	$1,617,839,633	($439,896,678)	137.3	408,876,968	(107.6%)
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
2006	2,741,753,157	2,599,592,469	142,160,688	94.8	659,274,265	21.6
2007	3,029,360,507	2,894,148,219	135,212,288	95.5	754,117,986	17.9

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2007.
(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 2002-03 through Fiscal Year 2009-10 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
2003	2005-06	17.095[1]	11.829%[1]
2004	2006-07	18.031	11.916
2005	2007-08	18.625	12.051
2006	2008-09	19.033	12.164
2007	2009-10	18.605	11.999

Source: PERS Actuarial Reports for June 30, 2000 through June 30, 2007.
(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, 2007 actuarial valuation, projected that the County's contribution rate under the Safety Plan for the Fiscal Year 2009-10 will be 18.605%, which would result in an approximately 0.428% decrease in the contribution rate from Fiscal Year 2008-09. The PERS actuary, in its June 30, 2007 actuarial valuation, projected that the County's contribution rate under the Miscellaneous Plan for the Fiscal Year 2009-10 will be

11.999%, which would result in an approximately 0.165% decrease in the contribution rate from Fiscal Year 2008-09. No projections beyond Fiscal Year 2009-10 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, 2007, the actuarial value of the assets in the Safety Plan was approximately 13.2% below the market value and the actuarial value of the assets in the Miscellaneous Plan was approximately 13.4% below the market value. As a result, when the market asset return in the PERS Plans differs from the actuarial assumed rate of 7.75% in future Fiscal Years, the actuarial practice of smoothing losses over several years causes the investment rate of return for actuarial purposes to be different than the market asset return.

Second, the County's projected contribution rate in Fiscal Year 2009-10 will also be affected by the market asset return in the PERS Plans during previous years. The market asset return for all PERS plans was approximately 18.8% in Fiscal Year 2006-07, 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 May 12, 2008, Bartel forecasted that as of June 30, 2008, the County will have a UAAL of $138.7 million for the Miscellaneous Plan and $63.6 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 98.0% for the Miscellaneous Plan and 97.8% 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 2008, 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, 2007, the County's contribution level is 1.80%. The County's contribution to the Plan was $1,378,547 for Fiscal Year 2007-08, and is estimated to be $745,031 for Fiscal Year 2008-09. The Plan's unfunded liabilities as of June 30, 2007 are approximately $6,689,956.

Other Post Employment Benefits. The County provides certain post-retirement health insurance benefits to qualifying retired employees and their eligible dependents or survivors. Regular employees with a minimum service of five years and who are at least 50 years of age at retirement qualify to receive the post-retirement benefits if their PERS retirement benefits commence within four months of their retirement.

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"). These disclosure requirements are effective for the County beginning Fiscal Year 2007-08.

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 are 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.

The County of Riverside obtained 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 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. Approximately 70% of the County's OPEB liability was 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. On November 7, 2007 the OPEB Trust was established with CalPERS and a payment of $10.4 million was made to the trust.

The County of Riverside obtained its most recent Post-Employment Health Benefits Valuation, calculated in accordance with GASB 45 standards, as of January 1, 2008. Based on the actions mentioned above and the plans and contribution levels that the County offers, assuming a blended 7.24% interest rate, the present value of future benefits was estimated to be $58.4 million, while the annual normal cost was $1.9 million. If the accrued actuarial liability of $46.7 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would be $3.92 million.

Overall, the actions of the Board reduced the County's OPEB liability from $237 million to $58 million.

Medical Center

The County has the responsibility for providing health care to all individuals, regardless of their ability to pay or insurance status. In recent years, it has become more and more difficult to meet this obligation as an "open door safety net provider" due to declining and inadequate federal and State health care reimbursement and non-payment by the uninsured coupled with rising service needs and costs of an older and sicker population which has placed significant demands on the County's health care system.

The Riverside County Regional Medical Center ("RCRMC") is a 520,000 square foot state-of-the-art tertiary care and level II adult and pediatric facility, licensed for a total of 439 beds. There are 362 licensed beds in the main acute-care hospital and 77 licensed beds in a separate psychiatric facility. RCRMC has 12 operating rooms, a helipad located directly adjacent to the Trauma Center, and state-of-the-art digital radiology services, including magnetic resonance imaging (MRI) and computerized tomography (CT) and all single bed rooms. There are also adult, pediatric and neonatal intensive care units, a birthing center and complete pulmonary services including hyperbaric oxygen treatments. The RCRMC provides services to patients covered by various reimbursement programs, principally Medicare, the State Medi-Cal program, the County Medially Indigent Service Program and the County Indigent Adult program.

RCRMC is reimbursed for cost reimbursable items at a tentative rate until final settlement is determined after submission of annual cost reports by RCRMC and audit thereof by Medicare.

At June 30, 2008, RCRMC reflected unrestricted net assets of approximately $86 million for Fiscal Year 2007-08. RCRMC had a cash balance of approximately $79 million as of June 30, 2008. In Fiscal Year 2007-08, RCRMC had an increase in net assets of $15 million. RCRMC continued to experience growth in patient collections in Fiscal Year 2007-08. 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 2008-09 will depend upon the State's meeting certain Waiver requirements and timely cash payments thereunder.

The Board's approved budget includes a General Fund contribution of $24.4 million to address potential future shortfalls. This contribution is $6.7 million less than the prior year's contribution. Due in part to changes to federal and State funding, RCRMC is expected to indefinitely require some degree of general fund contribution. The County and RCRMC management teams continue to improve new procedures designed to improve cash flow and control costs.

One significant element of Fiscal Year 2007-08 was the securitization of tobacco settlement revenue to fund jail construction. The $16.6 million tobacco settlement revenue that the hospital was to receive for debt service and operations was reduced to $10 million. The remaining $6.6 million will be used to fund jail bed construction, through securitization. RCRMC management is aware of this financing plan, which protects revenue needed for debt service while also providing for jail bed construction. The Medical Center's management team is concerned that the continuing downturn in the economic outlook for the federal and state budget and the cap on the Section 1115 waiver which will have a direct impact on the medical center's ability to meet projected targets during the next two years under the current Medi-Cal Waiver program.

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 (currently $200 million per occurrence) is insured through CSAC Excess Insurance Authority. Long-term disability income claims are fully insured by an independent carrier.

The property insurance program provides insurance coverage for all risks subject to a $50,000 deductible; flood coverage is subject to a 2% deductible within a 100-year flood zone and a $25,000 deductible outside of a 100-year flood zone. Property in the County is categorized into four "towers" and each tower provides $600 million in limits. Earthquake coverage (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 $60 million with an additional $232.5 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 $100,000 maximum. 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. If a catastrophic event occurs and losses exceed the limits, the County would be responsible for such amounts.

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, 2007 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 January 31, 2008 was approximately $169.6 million.

APPENDIX B

COUNTY'S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006/07

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COUNTY OF RIVERSIDE, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007

ROBERT E. BYRD, CGFM
COUNTY AUDITOR-CONTROLLER

County of Riverside, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007

Robert E. Byrd, CGFM
County Auditor-Controller

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COUNTY OF RIVERSIDE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2007

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

Photographer
RICHARD PAUL
"Brother & Sister"

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AUDITOR-CONTROLLER

Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, CPA
ASSISTANT AUDITOR-CONTROLLER

December 17, 2007

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, 2007 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 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.

The management's discussion and analysis (MD&A) immediately follows the report of the independent auditors and provides a narrative, overview, and analysis of the basic financial statements. The MD&A was designed to compliment this letter of transmittal and should be read in conjunction with it.

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 ten 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 7,303 square miles and extends nearly 200 miles across Southern California, from the Arizona border west to within 14 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 291,398, Moreno Valley with a population of 180,466, and Corona with a population of 146,164.

Total County population was 2,031,625 on January 1, 2007, an increase of 4.7% as compared to the revised estimate for 2006 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 26.5% of the residents live in the unincorporated area. The County is part of the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), which includes all of Riverside and San Bernardino Counties. The MSA has large and rapidly expanding construction, professional and business services, and trade, transportation and utilities industries.

Total nonfarm employment in the MSA rose 28.0% from March 2001 to March 2007, while the population increased by 27.8% in the County from January 1, 2001 to January 1, 2007. As of September 2007, unemployment in the MSA was 6.1% (revised on an annual basis by the California Employment Development Department Labor Market Information Division) as compared to 4.5% for the United States.

PLANNING AND GROWTH MANAGEMENT

Economic Perspective

The economy still appears to be good throughout the United States, California and the County. While growth in the United States economy has slowed, the California economic growth rate was stronger than the United States. Locally, given current markets and trends, our economic perspective for the remainder of 2007 or in 2008 is modest. Impacts from reductions in residential construction and sales are being offset by continued growth in non-resident construction. The permit volume in Building and Safety is trending lower and starting to resemble similar declines experienced in the mid-90's. The Assessor expects next year's construction rate to drop 15 percent. Mortgage delinquencies are on the rise. The County's fiscal foundation is strong, but requires careful management.

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 Community and Environmental Transportation Acceptability Plan (CETAP), and a Special Area Management 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. The 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.

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 December 31, 2008. The transfer of courthouse facilities to the Judicial Council must be completed by December 31, 2008.

The County transfer plan includes the transfer of the court facilities and associated parking. During fiscal year ending June 30, 2007, the Hall of Justice and Banning Court were transferred. In October 2005, the Moreno Valley Court was transferred. Prior to June 30, 2005, the 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. Since that date, a number of Development Agreements have expired. Effective January 1, 2007, the fee, based on an adjusted consumer price index, was $3,898 and consisted of the following components:

		Development Agreement Fee
Public Facilities		$ 3,067
Public Services Offset		831
	Total	$ 3,898

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, 2007, the total of unexpended and uncommitted development agreement money available in capital project funds is $1.1 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, 2007, the total amount of unexpended, uncommitted, interim open space mitigation funds related to Ordinance 810 and 810.1 is about $425,000.

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, 2007, the total of unexpended, uncommitted, development mitigation funds related to Ordinance 659 in capital project funds is about $276,000.

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 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 $3,598 to $7,280 per unit. The range for multiple-family residential development impact fees is $3,039 to $5,815 per unit. Commercial development impact fees range from $20,737 to $34,873 per acre. The range for industrial development impact fees is from $10,577 to $17,440 per unit. The range for surface mining development impact fees is from $4,195 to $9,197 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. An update of the development impact fees was approved by the Board of Supervisors on September 12, 2006, resulting in an increase of development impact fees effective November 11, 2006. As of June 30, 2007, the total unexpended, uncommitted, development impact fees is about $68.0 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 County's internal audit staff.

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, 2006, 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. The single audit for fiscal year ending June 30, 2007, 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 $257.1 million at June 30, 2006 to $283.1 million at June 30, 2007. 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 fund balance of the County's general fund represents the equivalent of 69 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, 2007 was 1.14 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 56%. 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 $5.0 billion at June 30, 2007, $2.8 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 12 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. 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 5.78% 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 general liability, including auto and workers' compensation, and medical malpractice. Medical malpractice utilized a policy that provided annual coverage on a claims-made basis prior to FY 1998-99. 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, and 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 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, 2007, 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 of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Riverside for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the nineteenth consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another 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 staff 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

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COUNTY OF RIVERSIDE

List of Principal Officials
As of June 30, 2007

ELECTED OFFICIALS

Board of Supervisors

BOB BUSTER
First District

JOHN F. TAVAGLIONE
Chairman
Second District

ROY WILSON
Vice Chairman
Fourth District

JEFF STONE
Third District

MARION ASHLEY
Fifth District

COUNTYWIDE ELECTED OFFICIALS

ROD PACHECO
District Attorney

BOB DOYLE
Sheriff
Coroner
Public Guardian

ROBERT E. BYRD
Auditor – Controller

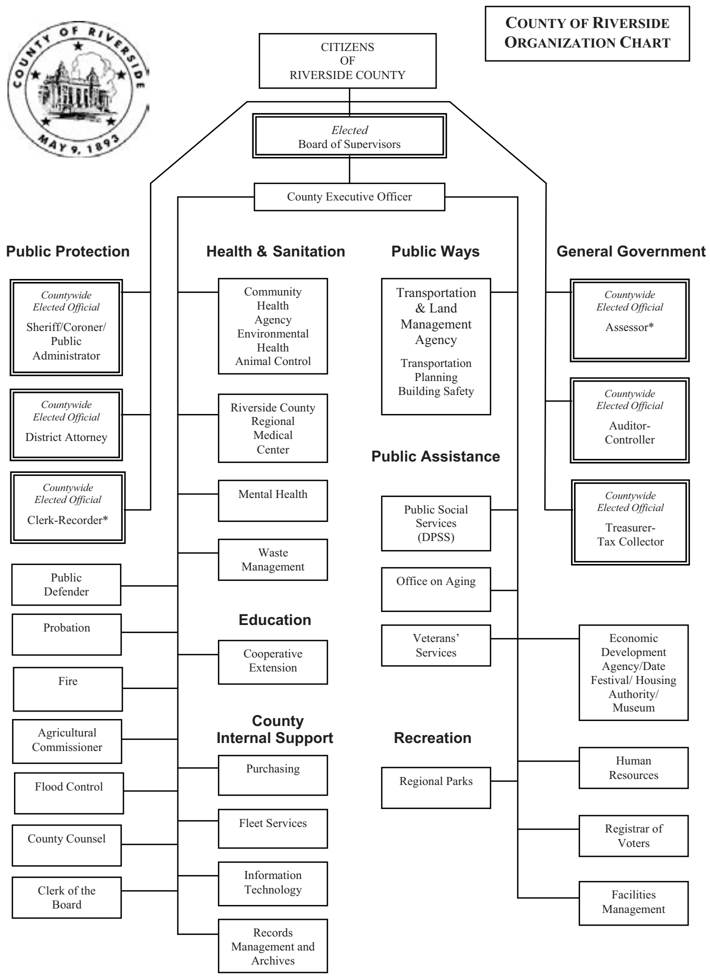
LARRY WARD
Assessor
County Clerk
Recorder

PAUL MCDONNELL
Treasurer
Tax Collector

APPOINTED OFFICIALS

LARRY PARRISH
County Executive Officer

JOE S. RANK
County Counsel



** Assessor/Clerk-Recorder is a single elected position that falls under two functional categories in the County financial statements.*

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, 2006

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.

Government Finance Officers Association of the United States and Canada Corporation Chicago

President

Executive Director

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FINANCIAL SECTION

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CONSTANCE REID
“Aztec Dancers”

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

VALUE THE DIFFERENCE

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, 2007, 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	28%	9%
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 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 and the reports of other auditors provide a reasonable basis for our opinions.

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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, 2007, 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 14, 2007 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 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Photographer
FLO RICHARDS
"Young Dancer – Pow Wow"

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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.

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, 2007. 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 Flood Control and Water Conservation District (Flood Control)
- Riverside County Regional Park and Open-Space District
- Riverside County Public Financing Authority (no activity for fiscal year 2006-07)
- 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 fund budgets except for 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 current fiscal year, the County's assets of $5.7 billion exceeded its liabilities of $2.7 billion, by $3.0 billion (net assets). Of this amount $1.5 billion (unrestricted net assets*)* may be used to meet the County's ongoing obligations to citizens and creditors; $620.1 million (restricted net assets) is restricted by external sources or through enabling legislation for specific purposes and $956.4 million is invested in capital assets, net of related debt.

- During fiscal year 2006-07, the County's net assets increased by $363.6 million. Of this amount, $327.3 million was from governmental activities and $36.3 million was from business-type activities. Countywide expenses of $2.9 billion were substantially offset by program revenues of $2.3 billion leaving an operating deficit of $558.8 million. The operating deficit was offset by general revenues of $922.4 million resulting in the increase in net assets.

- As of June 30, 2007, the total fund balances of the governmental funds were $1.8 billion. This represents an increase of 25.2% or $352.5 million, in comparison with the prior year. Approximately 16.6% or $291.3 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, 2007, fund balance for the General Fund was $571.0 million or 27.6% of the total General Fund expenditures. This amount includes $88.2 million of reserved fund balance and $339.8 million of designated fund balance.

- The County's long-term debt showed a net increase of 9.7% or $188.4 million compared to the prior year. These obligations are bonds payable, capital leases, certificates of participation and loans payable.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 $3.0 billion.

The County's total net assets increased by 13.6%, or $363.6 million, during fiscal year 2006-07 compared to the prior year's increase of 17.6%, or $401.7 million. $327.3 million of the increase in net assets was from governmental activities and $36.3 million was from business-type activities. For the prior year, $375.9 million of the increase in net assets was from governmental activities and $25.8 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 31.4%, or $956.4 million, of the County's total net assets for fiscal year 2006-07 compared to 36.3%, or $971.8 million, for fiscal year 2005-06. 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 20.4%, or $620.1 million of the County's total net assets for fiscal year 2006-07 compared to 23.3% or $623.3 million for fiscal year 2005-06. This component of net assets represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net assets** account for 48.3%, or $1.5 billion of the County's total net assets for fiscal year 2006-07 compared to 40.5%, or $1.1 billion, for fiscal year 2005-06. 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 2006-07, $1.4 billion is from governmental activities and $100.6 million is for business-type activities compared to $1.0 billion for governmental activities and $86.0 million for business-type activities for the prior year.

The table below provides summarized data from the Statement of Net Assets of the County for June 30, 2007 as compared to the prior year:

Statement of Net Assets
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total		%
	2007	2006	2007	2006	2007	2006	Variance
Current and other assets	$ 2,925,165	$ 2,454,916	$ 314,998	$ 279,401	$ 3,240,163	$ 2,734,317	18%
Capital assets	2,201,178	2,060,660	257,095	249,474	2,458,273	2,310,134	6%
Total assets	5,126,343	4,515,576	572,093	528,875	5,698,436	5,044,451	13%
Other liabilities	480,284	387,261	40,840	34,589	521,124	421,850	24%
Long-term liabilities	1,803,156	1,615,486	326,736	326,042	2,129,892	1,941,528	10%
Total liabilities	2,283,440	2,002,747	367,576	360,631	2,651,016	2,363,378	12%
Net assets:							
Invested in capital assets, net of related debt	903,076	930,800	53,321	40,986	956,397	971,786	-2%
Restricted	569,477	582,037	50,629	41,287	620,106	623,324	-1%
Unrestricted	1,370,350	999,992	100,567	85,971	1,470,917	1,085,963	35%
Total net assets	$ 2,842,903	$ 2,512,829	$ 204,517	$ 168,244	$ 3,047,420	$ 2,681,073	14%

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 2006-07 with a total of $1.2 billion being earned. Public Assistance received 56.0% of the governmental activity funding for fiscal year 2006-07 compared to 54.7% of the governmental activity funding from this source in the prior year. Public Protection received 20.8% of the governmental activity funding for fiscal year 2006-07, compared with 23.4% for fiscal year 2005-06.

- A total of $609.2 million was earned as governmental activity charges for services compared to $558.7 million for fiscal year 2005-06. 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 50.4% of this revenue source, compared to 51.3% from the prior year. General government generated 28.1% compared to 31.3% for prior year.

- Capital Grants and Contributions resulted in the least amount of program revenue from governmental activities with $48.2 million earned for fiscal year 2006-07 compared to $31.0 million earned for fiscal year 2005-06. This revenue category accounts for grants and contributions received for the restricted use of capital acquisition. In fiscal year 2006-07, 96.9% of the revenue, or $46.7 million, as compared to 96.8%, or $30.0 million, for fiscal year 2005-06, 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, other revenues, and investment earnings. Property tax revenue is the largest governmental activities general revenue with $462.8 million earned during the year, an increase of 16.8% or $66.7 million, as compared to the $396.2 million earned in fiscal year 2005-06. 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 11.6% from $220.2 million in fiscal year 2005-06 to $245.7 million in fiscal year 2006-07.

Expenses: Total program expenses for governmental activities were $2.4 billion for the current fiscal year as compared to $2.2 billion for the prior fiscal year, an increase of 10.7% or $234.8 million. 38.4%, or $935.6 million of total governmental activities expenses were for Public Protection; 28.3% or $688.2 million for Public Assistance; 14.4% or $350.1 million for Health and Sanitation and 12.2% or $296.9 million for General Government.

Business-type Activities

Revenues: 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%, $475.6 million, of business-type activities program revenue was received from charges for services, a percentage consistent with the prior fiscal year. The majority of this revenue, $337.9 million, was received by RMC as compared to $330.1 million for the prior fiscal year.

Expenses: Total expenses for business-type activities were $466.7 million for the fiscal year compared to $426.3 million for the prior fiscal year. This represents an increase of 9.5% or $40.4 million. 70.5%, or $329.1 million, of total expenses were incurred by RMC compared to 68.3%, or $291.0 million, for the prior fiscal year. In addition, expenses for the Housing Authority were 15.1% of total expenses for business-type activities or $70.2 million compared to 14.8% or $63.0 million for the prior fiscal year; Waste Management Department was 13.0% or $60.8 million compared to 15.6% or $66.5 million the prior fiscal year. Flood Control and County Service Areas account for the remaining 1.4% of expenses, a percentage consistent with the prior fiscal year.

The following table provides information from the Statement of Activities of the County for the fiscal year 2006-07, as compared to the prior year:

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

	Governmental Activities		Business-type Activities		Total		
	2007	2006	2007	2006	2007	2006	Variance (%)
Revenues:							
Program revenues:							
Charges for services	$ 609,195	$ 575,071	$ 475,611	$ 465,391	$ 1,084,806	$ 1,040,462	4%
Operating grants and	1,210,941	1,100,674	-	-	1,210,941	1,100,674	10%
Capital grants and contributions	48,186	31,001	261	227	48,447	31,228	55%
General revenues:							
Property taxes	462,817	396,167	-	-	462,817	396,167	17%
Sales and use taxes	51,093	44,286	-	-	51,093	44,286	15%
Other taxes	16,865	15,603	-	-	16,865	15,603	8%
Motor vehicle in-lieu taxes	245,723	220,190	-	-	245,723	220,190	12%
Investment earnings	122,517	78,288	10,198	6,381	132,715	84,669	57%
Other	13,191	96,265	-	-	13,191	96,265	-86%
Total revenues	2,780,528	2,557,545	486,070	471,999	3,266,598	3,029,544	8%
Expenses:							
General government	296,917	259,993	-	-	296,917	259,993	14%
Public protection	935,550	801,044	-	-	935,550	801,044	17%
Public ways and facilities	57,578	61,443	-	-	57,578	61,443	-6%
Health and sanitation	350,082	350,451	-	-	350,082	350,451	0%
Public assistance	688,213	634,522	-	-	688,213	634,522	8%
Education	14,847	11,168	-	-	14,847	11,168	33%
Recreation and culture	11,941	7,188	-	-	11,941	7,188	66%
Interest on long-term debt	81,197	75,721	-	-	81,197	75,721	7%
Regional Medical Center	-	-	329,128	290,962	329,128	290,962	13%
Waste Management Department	-	-	60,772	66,453	60,772	66,453	-9%
Housing Authority	-	-	70,218	62,909	70,218	62,909	12%
Flood Control	-	-	6,242	5,705	6,242	5,705	9%
County Service Areas	-	-	329	285	329	285	15%
Total expenses	2,436,325	2,201,530	466,689	426,314	2,903,014	2,627,844	10%
Excess (deficiency) before Transfers	344,203	356,015	19,381	45,685	363,584	401,700	-9%
Transfers in (out)	(16,892)	19,888	16,892	(19,888)	-	-	0%
Change in net assets	327,311	375,903	36,273	25,797	363,584	401,700	-9%
Net Assets, Beginning of Year, as Restated	2,515,592	2,136,926	168,244	142,447	2,683,836	2,279,373	18%
Net Assets, End of Year	$ 2,842,903	$ 2,512,829	$ 204,517	$ 168,244	$ 3,047,420	$ 2,681,073	14%

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, 2007, the County's governmental funds reported combined fund balances of $1.8 billion, an increase of $352.5 million, in comparison with the prior year. Of this total amount, $946.6 million constitutes *unreserved fund balance,* which is available for spending at the County's discretion. The remainder of fund balance, $806.4 million is *reserved* to indicate that it is *not* available for new spending because it has been committed to:

- Specific County program: $86.1 million
- Outstanding debt service: $44.8 million
- Liquidation of current contractual commitments: $539.3 million
- Other smaller restrictions: $136.2 million

Total governmental fund revenue increased by 11.8% or $301.2 million from the prior fiscal year with $2.9 billion being earned for the fiscal year-ended June 30, 2007. Expenditures increased by 11.6% or $281.2 million, from the prior fiscal year with $2.7 billion being expended for governmental functions during fiscal year 2006-07, compared to $2.4 billion for the prior fiscal year. Therefore, governmental fund balance increased by 25.1% or $352.5 million. In comparison, fiscal year 2005-06 had an increase in governmental fund balance of 28.8% or $313.3 million, over fiscal year 2004-05.

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 $482.7 million, compared to $346.5 million for the prior fiscal year, while total fund balance was $571.0 million for the current year and $446.9 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 23.4% of the total General Fund expenditure of $2.1 billion for the current year as compared to 18.3% of the prior year total of $1.9 billion. The total fund balance of the General Fund for the current year is 27.6% of the total General Fund expenditure as compared to 23.6% for the prior year.

Teeter Debt Service fund taxes receivable balance increased from $21.9 million in the prior fiscal year to $37.0 million in the current fiscal year due to higher actual buyout in fiscal year 2006-07. Teeter notes payable increased in the current fiscal year to $86.2 million compared to $58.4 million in fiscal year 2005-06 due to increase in actual borrowing based on delinquency property tax analysis. 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 $223.0 million to $256.3 million, 15.0%, or $33.4 million. The change resulted from increase in other revenue, $35.0 million due to increase in property values over the base year assessed values, increase in interest revenue, $11.7 million, decrease in charges for services, $36.5 million due to slower development and project services, and transfers in, $67.1million. This was offset by increases in general government expenditures of $82.4 million and transfers out, $34.6 million.

Redevelopment Capital Projects fund had a $177.9 million increase in fund balance. The increase resulted from the sale of bonds for $199.3 million, increases in interest revenue of $13.0 million due to higher tax increment, charges for services, $2.2 million, and other revenue of $2.5 million. This was offset by expenditures for general government in the amount of $40.6 million.

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.

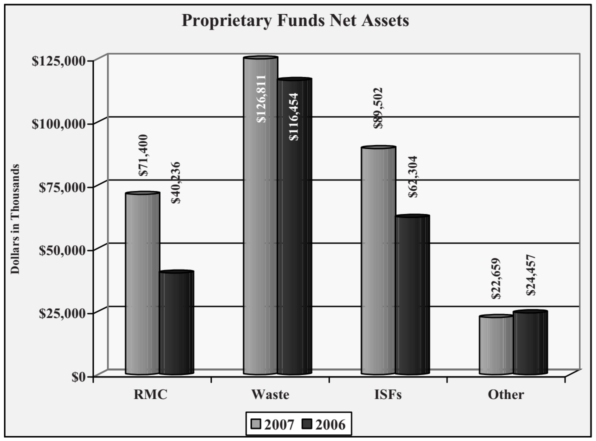
At the end of the fiscal year, total proprietary fund net assets were $310.4 million, compared to $243.5 million for prior fiscal year. Total proprietary fund net assets increased 27.5% or $66.9 million, compared to a 31.2% or $57.9 million increase for the prior fiscal year.

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

- Riverside County Regional Medical Center: $64.9 million
- Waste Management: $42.2 million
- Other enterprise fund activities: $9.8 million
- Internal service fund activities: $71.2 million

RMC's net assets increased from $40.2 million to $71.4 million, 77.5%, or $31.2 million. The change resulted from a 10% increase in patient volume along with one time additional revenues in various third parties programs. The major increases over last year were the Medi-Cal FFS and Waiver Program, $10.0 million, Private Insurance Payors, $3.0 million, California Department of Corrections, $4.0 million, Medicare Cost Report Settlements, $3.0 million, Section 1011, $3.0 million, and SB 1732 (Medi-Cal Capital Construction Fund), $7.0 million.

Waste Management's net assets increased from $116.5 million to $126.8 million, 8.9%, or $10.4 million. The change resulted from a decrease in closure/post-closure expenses, $10.6 million.



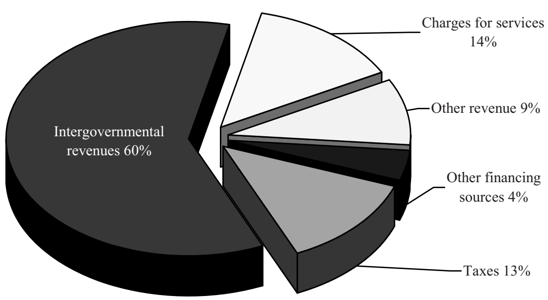
GENERAL FUND FINANCIAL ANALYSIS

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 2006-07	Percent of Total	Fiscal Year 2005-06	Percent of Total
Taxes	$ 301,575	13%	$ 273,493	13%
Intergovernmental revenues	1,405,699	60%	1,249,537	59%
Charges for services	319,198	14%	326,066	15%
Other revenue	211,460	9%	144,767	8%
Other financing sources	98,260	4%	111,711	5%
Total	$ 2,336,192	100%	$ 2,105,574	100%

The increase in tax revenue was attributable to collections on penalties and interest on delinquent property taxes tied to all teeter plan participants. This revenue is seasonal, dependent upon economical conditions, and will likely continue into fiscal year 2007-08. The increase in tax revenue is also due to the 22.47% increase in the assessed values of property. The increase in intergovernmental revenue was primarily attributable to growth in public safety sales tax and vehicle license fee revenue from the State, an increase in realignment revenue due to economic growth, and growth in reimbursement based programs. The overall decrease in charges for services was primarily the result of decreased revenue from building permit, recording, and modernization fees due to the real estate market slow down.

COUNTY OF RIVERSIDE
General Fund Revenues and Other Financing Sources
For The Year Ended June 30, 2007

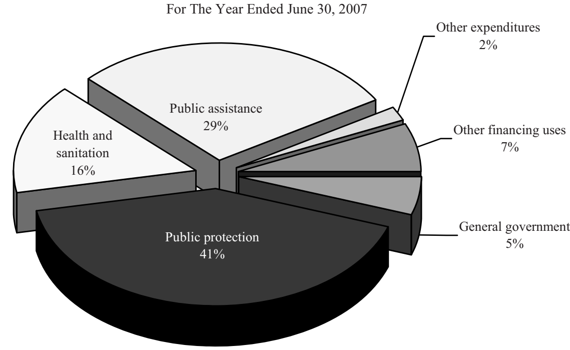


Expenditures and other financing uses for the General Fund, including comparative amounts from the preceding year, are shown in the following tabulation (in thousands):

Expenditures and Other Financing Uses	Fiscal Year 2006-07	Percent of Total	Fiscal Year 2005-06	Percent of Total
General government	$ 119,365	5%	$ 123,716	6%
Public protection	916,524	41%	798,035	40%
Health and sanitation	341,467	16%	337,139	18%
Public assistance	644,912	29%	588,928	29%
Other expenditures	43,664	2%	45,987	2%
Other financing uses	146,214	7%	104,172	5%
Total	$ 2,212,146	100%	$ 1,997,977	100%

The decrease of expenditures in general government was attributable to CORAL rent and COWCAP expenditures decreasing due to the charges being distributed to more departments outside of the general government and the installment payments for the new Edge II voting equipment were paid for in fiscal year 2005-06. The increase of expenditures in public protection was attributable to additional staffing, increases in salaries and benefits, and the conversion of fire stations to medic stations which were all needed to more efficiently serve the public. The increase of expenditures in health and sanitation was attributable to additional staffing in Mental Health and Public Health departments, increases in administrative cost and TAP services, and increases in computer software and hardware purchases. The increase in public assistance was attributable to caseload growth of reimbursable programs in categorical assistance, increases in salaries and benefits, and increases in COWCAP charges, costs of the new C-IV Statewide Welfare System, computer/equipment upgrades, contractual leases, and service contracts.

COUNTY OF RIVERSIDE
General Fund Expenditures and Other Financing Uses
For The Year Ended June 30, 2007



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 4.5%, or $104.4 million, from $2.3 billion to the final amended revenue budget of $2.4 billion. The increase represents $38.0 million from taxes, $5.2 million from fines, forfeitures and penalties, $1.4 million from use of money and property, $99.5 million from aid from other governmental agencies, and $17.4 million from other revenue. Revenue from charges for current services had a decrease of $57.0 million offsetting other revenue increases.

Taxes: The budget for property tax had a net increase of $38.0 million, or 13.0%, which primarily consisted of a $22.6 million increase in current secured property taxes, a $16.7 million increase in teeter overflow, a $3.0 million increase in supplemental property tax, and a $4.3 million decrease in documentary transfer taxes.

Fines, Forfeitures and Penalties: The budget for fines, forfeitures, and penalties had a net increase of $5.2 million, or 10.7%, primarily due to an increase in AB233 Realignment revenue for trial court funding.

Use of Money and Property: The budget for interest revenue had a net increase of $1.4 million, or 2.7%, from invested funds. This revenue is based on economist estimates of Federal Reserve activity, the forecasted level of interest rates, and ending balances of the General Fund and its share of pool interest earnings. The original budgeted amount of $51.8 million was raised by $1.4 million in May 2007 resulting in a final amended budget of $53.5 million.

Aid Received from Other Governmental Agencies: Aid received from other governmental agencies increased by $99.5 million, or 7.9%, and consisted of the following: Federal aid increased by $26.3 million and State aid increased by $73.0 million. Increases in Federal aid were the result of Probation having an increase of $9.8 million for the Temporary Assistance to Needy Families (TANF) program and an increase of $1.0 million for the National School Lunch program. Mental Health had an increase of $4.8 million due to the Mental Health Services Act (MHSA) agreement. Federal Grant Revenue increased for the Department of Health by $3.4 million, the Department of Public Social Services by $3.3 million, the Fire Department by $2.0 million, and the Sheriff by $1.5 million. Increases in State aid were primarily the result of an increase from the Department of Public Social Services by $27.4 million, Mental Health by $26.0 million related to the Mental Health Services Act (MHSA), $9.8 million due to SB90 revenue, and an increase in motor-vehicle tax of $8.5 million.

Charges for Current Services: The budget for charges for services had a net decrease of $57.0 million, or 12.8%. The Sheriff's Department had an increase of $5.6 million mainly due to contract city revenue, the Assessor's Department increased $5.4 million, the Fire Department increased by $3.3 million and Facilities Management Department increased by $3.4 million. The Health Department increased revenue for SB 12 or the School Nutrition Standards by $3.0 million while Registrar of Voters increased by $1.5 million. This was all offset by $72.7 million to account for the allocation related to the increase of intergovernmental activities.

Other Revenue: The increase in other revenue of $17.4 million, or 12.3%, was primarily the result of an increase in contractual revenue from Redevelopment of $21.8 million and from the Auditor-Controller of $7.0 million for secured tax revenue. This was offset by a decrease of $16.6 million for the allocation related to the increase of intergovernmental activities.

Expenditure Appropriation Variances

The original general fund appropriation budget increased by $30.3 million, or 1.3%, from $2.31 billion to the final amended appropriation budget of $2.34 billion. The significant appropriation changes were an increase of $30.0 million from public protection, an increase of $40.7 million from health and sanitation, and an increase of $5.0

million from public assistance. Increases were offset by a decrease of $44.9 million from general government. The major appropriation variances are described below.

General Government: The appropriation budget decreased by $44.9 million, or 17.9%, from the original budget of $250.7 million to $205.8 million. The following describe the significant factors for the variances:

- Salaries and employee benefits decreased by $4.2 million, or 4.3%, mainly due to the Assessor and Facilities Management. By year-end both departments had vacant budgeted positions therefore cost savings were reclassified to fund increases in operational expenditures. The Assessor decreased budget by $1.5 million and Facilities decreased budget by $1.3 million.
- Services and supplies increased by $19.1 million, or 21.0%, mainly due to Facilities and the Registrar of Voters. Several appropriation transfers totaling $3.7 million in Facilities were done throughout the year to anticipate higher operational expenditures. Facilities also increased budget by $2.0 million due to the addition of 23 new leases to accommodate the need for additional space for County departments. In addition, Facilities increased budget by $3.4 million for anticipated expenditures in consulting, land survey costs, geological contracts, and utility costs. The Registrar of Voters increased budget to cover a $2.3 million payment for replacement of voting equipment. The Registrar also required a $0.4 million increase in temporary help and election officers for the increase in precincts.
- Other charges decreased by $54.0 million, or 49.5%. This was a result of an increase of $11.4 million to Contribution to non-county agencies, a $5.4 million increase from the Assessor and an offset of $70.3 million decrease related to allocation of intergovernmental activities.
- Intrafund transfers increased by $12.1 million, or 15.0%, mainly due to a Human Resources transfer of $7.5 million to adjust the collection of estimated revenue.
- Appropriation for contingencies increased by $4.9 million, or 15.3%, due to the Board of Supervisors, based on Executive Office recommendations, authorizing an increase in appropriations to offset potential liabilities.

Public Protection: The appropriation budget increased by $30.0 million, or 3.2%, from the original budget of $947.7 million to $977.7 million. The increase was a result of a $22.7 million increase from services and supplies, a $5.5 million increase from capital assets, and a $3.7 million increase from other charges. The increases were offset by $1.6 million from salaries and employee benefits. The following describe the significant factors for the variances:

- Salaries and employee benefits decreased by $1.6 million, or 0.3%, mainly due to Probation, the Fire Department, and Code Enforcement. Probation's final budget was based on 433 authorized positions. However, at year end, Probation only had 383 filled positions, or a 12% vacancy rate. Therefore, appropriation transfers worth $1.7 million were made to cover expenditures for services and supplies. The Fire department had difficulty recruiting planning and engineering personnel. Anticipated savings of $1.4 million were transferred to cover services and supplies expenditures in the State contract. Code Enforcement had an increase of $1.6 million by adding 38 positions to increase code enforcement levels.
- Services and supplies increased by $22.7 million, or 7.7%, mainly due to the Fire department, Sheriff, Code Enforcement, and Probation. The Fire department added 14 State personnel and other State costs which increased budget by $2.6 million. Also, to cover the Lawson Dump Fire costs, the Fire department increased budget by $1.8 million. Other grants increased the Fire department budget by $1.5 million. The Sheriff budget increased by $5.9 million as a result of additions to city contract patrol services for $1.9 million, a records management system upgrade for $1.6 million, a Taser purchase also for $1.6 million, and $0.8 million due to an increase in motor vehicle maintenance, lodging, and radio systems. Code Enforcement increased by $2.9 million due to expanded supply costs, facilities, and special program expenses for 38 new positions including the illegal dump strike team. Probation increased by $1.1 million due to the replacement of all computers in the department which was paid by the Temporary Assistance to Needy Families (TANF) block grant.
- Other charges increased by $3.7 million, or 6.8%, mainly due to Code Enforcement and County Clerk-Recorder. Code Enforcement increased by $2.1 million in order to support 38 new positions and a new litter removal program. County Clerk-Recorder increased by $1.9 million due to the Box Springs project receiving construction bids that came in higher than expected. In addition, Facilities anticipated other attached costs for County Clerk-Recorder which would exceed original amounts.

- Capital assets increased by $5.5 million, or 81.3%, mainly due to the Sheriff receiving $1.3 million worth of contract additions to communications equipment and receiving $1.2 million in Cal-METT grant funded equipment.

Health and Sanitation: The appropriation budget increased $40.7 million, or 10.7%, from $381.2 million to $421.8 million. The increase was a result of increases of $2.0 million in salaries and employee benefits, $22.3 million from services and supplies, $15.8 million from other charges, and $1.3 million from capital assets. The majority of these increases were due to an increase in positions and services for Mental Health in conjunction with the Mental Health Services Act (MHSA).

Public Assistance: The appropriation budget increased by $5.0 million, or 0.8%, from the original budget of $663.0 million to $668.0 million. The increase was mainly a result of an $11.7 million increase in services and supplies and a decrease of $7.4 million in salaries and employee benefits. The following describe the significant factors for the variances:

- To fully expend Federal and State allocations during the fiscal year, the Department of Public Social Services had salary and benefit savings of $7.4 million transferred to supplies and services. The Department of Public Social Services also received additional funding to support various programs and projects including: Foster Child supplies, improvements to Cathedral City Self-Sufficiency facility, small equipment purchases for TAMD, APS, and CWS, information technology office remodeling, new equipment and building modifications for customer service initiative, and infrastructure improvements to CWS case management system.

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

During the year, the General Fund had a positive budget variance of approximately $114.4 million resulting from unexpended appropriations of $275.8 million or 11.8% and overestimated revenue of $161.3 million or 6.7%. The following contributed to the variance:

Expenditure Variances

General fund actual expenditures of $2.1 billion were 11.8%, or $275.8 million, less than the final amended appropriation budget of $2.3 billion. General government, public protection, health and sanitation, and public assistance were the four most significant factors attributing to the unexpended appropriations as follows:

General Government: Actual expenditures of $119.4 million were less than the final amended budget of $205.8 million by $86.4 million or 42.0%. The most significant factors were due to a decrease in other charges of $42.9 million or 77.9% and a decrease in appropriations for contingencies of $37.0 million or 100%. Services and supplies were less than budget by $7.8 million or 7.1% and salaries and employee benefits were less by $3.6 million or 3.8%.

- Salaries and employee benefits were $3.6 million or 3.8% less than budgeted due to the Assessor, the Treasurer-Tax Collector, and County Counsel showing savings. The Assessor had savings of $1.0 million mainly attributed from information technology positions' skills pay. The Treasurer-Tax Collector had savings of $0.7 million because of 16 vacant budgeted positions. County Counsel had a $0.6 million savings due to 5 vacant budgeted code enforcement positions.
- Services and supplies were $7.8 million or 7.1% less due to the Assessor and the Executive Office. The Assessor had savings of $2.4 million because of a decrease in demand in information technology supplies and in building maintenance and other professional services. The Executive Office had a savings of $1.5 million due to a construction contract with the City of Temecula that was budgeted but not completed by year end and less communication equipment having to be replaced during this fiscal year.
- Other charges were $42.9 million or 77.9% less than budgeted due to the allocations related to the increase in intergovernmental activities.
- Appropriations for Contingencies are budgeted by the Board of Supervisors based on Executive Office recommendations for potential liabilities from general fund appropriations. The $37.0 million or 100% variance is due to expenditures not being reflected in the budget; instead, appropriations are reduced and increased in the department where they are needed.

Public Protection: Actual expenditures of $916.5 million were less than the final amended budget of $977.7 million by $61.2 million or 6.3%. The most significant factors were due to a decrease in other charges of $22.4 million or 39.0%, a decrease in services and supplies of $19.6 million or 6.1%, a decrease in salaries and employee benefits of $13.9 million or 2.3%, and a decrease in capital assets of $5.5 million or 44.7%.

- Salaries and employee benefits were $13.9 million or 2.3% less than budgeted due to Building and Safety, County Clerk-Recorder, and the Department of Child Support Services. The Building and Safety Department was $4.1 million less due to unfilled positions. The County Clerk-Recorder was $2.3 million less due to a slow down in recording fees. The Department of Child Support Services was $1.2 million less due to the difficulty in hiring experienced staff that are trained in child support activities and a number of employees who retired in the current year.
- Services and supplies were $19.6 million or 6.1% less than budgeted due to the County Clerk-Recorder, Fire Protection, the Sheriff and Planning Departments. The County Clerk-Recorder was $7.10 million less than budgeted. From the $7.1 million, $4.6 was budgeted for software maintenance and professional service projects but expenditures were deferred to next fiscal year due to the slow down in recording fees. The remaining $2.5 million budgeted for organizational restructure was not utilized. Fire Protection had a savings of $2.6 due to contracts with other cities and agencies. The Sheriff had a $3.6 million savings due the upgrade of a records management system project for $2.0 million which will be completed in the next fiscal year and a $1.6 million savings from safety-security supplies. The Planning Department had a $1.9 million savings due to a decrease in contractor services.
- Other charges were $22.4 million less than budgeted with the largest variance due to the County Clerk-Recorder Department. The Department had originally budgeted to lease a facility but it did not occur.
- Capital assets were $5.5 million less than budgeted with a majority of the highest variance from Sheriff-Patrol Department. The department had an increased in budget due to additions in city contracts and the Cal-METT Grant money not fully spent in fiscal year 2006-07.

Health and Sanitation: Actual expenditures of $341.5 million were less than the final amended budget of $421.8 million by approximately 19.1%, or $80.4 million. The most significant factors were due to a decrease in other charges of $56.2 million, a decrease in salaries and employee benefits of $17.7 million, a decrease in services and supplies of $10.0 million, and a decrease in capital assets of $5.4 million. A majority of these changes were from Mental Health and the implementation of the Mental Health Services Act (MHSA). Public Health had an $8.5 million savings in services and supplies as a result deferring equipment installation, software purchases and the expansion of the Bio-Terrorism program to fiscal year 2007-08.

Public Assistance: Actual expenditures of $644.9 million were less than the final amended budget of $668.1 million by approximately 3.5%, or $23.1 million. The most significant factors were due to a decrease in other charges of $8.9 million or 2.3%, a decrease in salaries and employee benefits of $8.3 million or 4.1%, and a decrease in services and supplies of $9.8 million or 10.9%, and an offset of intergovernmental activities of $3.9 million or 23.6%.

- Salaries and employee benefits were $8.3 million or 4.1% less than budgeted primarily due to the Department of Public Social Services Administration having $8.2 million savings from vacant budgeted positions.
- Services and supplies were $9.8 million or 10.9% less than budgeted primarily due to the Department of Public Social Services who cancelled or postponed facilities projects allowing a $6.7 million savings and fleet purchases of $1.8 million were also delayed until the first quarter of fiscal year 2007-08.
- Other charges were $8.9 million or 2.3% less than budgeted primarily due to the Department of Public Social Services. They experienced a decrease in services for kids in group home and youth offenders requiring services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the County's capital assets for both its governmental and business-type activities amounted to $2.5 billion (net of accumulated depreciation). The capital assets include land and easements, land improvements, construction in progress, and infrastructure. The County's infrastructure consists of channels, storm drains, levees, basins, roads, traffic signals, bridges, runways, parks, park trails, and landfill liners. The County's capital assets increased by 6.41% or $148.0 million, from $2.3 billion in fiscal year 2005-06 to $2.5 billion in fiscal year 2006-07.

The increase of the County's capital assets was primarily due to construction in progress projects. Construction in progress rose from $213.4 million in fiscal year 2005-06 to $356.1 million in fiscal year 2006-07, a 67.0% increase. The 2007 balance includes additions of $161.5 million, retirements of $3.3 million, and transferred or completed projects of $15.5 million. Land and Easement increased by 3.8% as a result of donated land to the Flood Department.

In fiscal year 2006-07, new major projects budgeted for construction and design initiated include the following: construction of the new HUB Jail in Banning was budgeted at $300 million, the expansion of the Smith Correctional Facility for $40 million, $30 million for the Fire and Emergency Operations Center (EOC) Headquarters, $19 million in additions to the Community Health Administrative Building, a new Wildomar Community Animal Shelter for $15 million, and a Facility Management Headquarters building for $4 million in Riverside on Franklin Street. The Riverside Community Regional Medical Center budgeted $3.6 million for remodeling and expansion, a new Indio Maintenance Facility budgeted $3.0 million, and the Glen Oaks Fire Station budgeted $2.5 million for design and construction. A new runway was budgeted for the Jacqueline Cochran Regional Airport with an amount of $1.9 million.

Construction in Progress

Additions to Construction in Progress for Fiscal Year 2006-07:

- In fiscal year 2006-07, additions in the amount of $161.5 million consist of costs related to existing projects for $142.3 million and new projects for $13.7 million.

  Existing project costs of $142.3 million include the following:

  - Road, bridge and signal infrastructures additions were $56.2 million.
  - Facilities Department incurred $40.2 million of costs for projects involving the Perris Patrol Station, the Historic Courthouse renovation, and the Nuevo, Cabazon, Lake Perris, and Sun City fire stations.
  - The Economic Development Agency incurred $14.7 million in costs related projects such as the Rubidoux Youth Center and the Rubidoux Health Clinic.
  - Waste Management incurred $12.9 million for the Lamb Canyon Liner in preparation for the expansion of the landfill.
  - Parks additions amount to $10.9 million. There are 41 active County District Park projects. These projects are part of the expansion of public recreation and natural resources.
  - Flood incurred $4.0 million related to Stetson Avenue Channel.
  - The Riverside Community Regional Medical Center incurred costs of $2.3 million, $1.4 million due to the Cogeneration Plant.

  New project costs of $13.7 million include the following:

  - Facilities Department experienced new projects in the amount of $4.5 million due primarily to the remodeling and construction of buildings and structures, such as the Smith Correctional Facility Expansion, the Wilderness Animal Shelter, and the expansion of the Hemet Community Health Agency.
  - Flood incurred new projects costs of $4.1 million, such as those for the La Sierra MDP Campbell Avenue storm drain of $1.5 million, the Day Creek Channel for $1.5 million, and the Wildomar Channel Stage 5 for $1.1 million.

  - Road, bridge and signal infrastructures projects totaled $2.9 million.
  - The Jacqueline Cochran Regional Airport Terminal Runway in the amount of $1.5 million.

Retired projects from Construction in Progress:

- Parks had 24 countywide district park projects totaling $2.2 million of non depreciable assets retire to Infrastructure, Park Trails and Improvements. These projects dealt with the expansion of public recreation and natural resources, such as the playgrounds, campgrounds, and trail expansions.

Construction in Progress Transfers:

- Completed construction in progress projects were transferred from construction in progress to other designated capital asset accounts during fiscal year 2006-07 in the amount of $34.2 million. This was offset by 18.7 million, for a net transfer of $15.5 million. Projects that were transferred are as follows:
  - Infrastructure incurred transfers of $2.6 million in flood channels and $8.4 million in flood storm drains - $11.0 million.
  - Ben Clark training firing range was transferred to Structures and Improvements - $8.3 million.
  - Airport Runway projects were completed and transferred to Infrastructure - $4.1 million.
  - Sycamore Creek Fire Station transferred to Structures - $2.6 million.
  - Waste Recycling Park development project at Lamb Canyon Sanitary Landfill transferred to Infrastructure - $2.2 million.
  - County Administrative Center 6th floor renovation transferred to Structures and Improvements $1.7 million.

Depreciable capital asset

The following will consists of a breakdown of the additions, retirements and transfers that make up the balance of depreciable capital assets:

Additions to depreciable assets:

- Total fiscal year 2006-07 Depreciable capital asset current year additions $161.7 million, which were comprised of the following:
  - Infrastructure in the amount of $116.7 million:
    - Roads in the amount of $82 million, for which $25.3 million consisted of donated assets, flood storm drains and flood channels in the amount of $34.4 million, and traffic signals in the amount of $0.3 million.
  - Equipment in the amount of $42.9 million:

    Vehicles Leased - $17.5 million, which includes prisoner transportation buses.
    Computer and Office Equipment - $7.2 million.
    Equipment Leased - $7.0 million.
    Equipment Vehicles - $5.0 million.
    Miscellaneous Equipment - $3.4 million.
    Equipment Field - $2.8 million.

Retirements of depreciable assets:

- Retirement of depreciable assets was composed of $115.2 million

  The $115.2 million in retired depreciable assets primarily consists of $95.6 million for Structures and Improvements designated to Court Buildings, such as the Family Law Court and the Justice Courts that were retired then transferred to the State per SB1732- Trial Court Facilities legislation and two fire stations that were donated to the cities of Moreno Valley & Temecula per Board of Supervisors Resolution No. 2005-490. $18.6 million in equipment was retired, consisting of:

  - Equipment Leased- $5.7 million.
  - Computer and Office equipment - $5.1 million.

- Equipment Vehicles - $3.1 million, which include police cruisers and patrol vehicles.
- Vehicles Leased - $2.6 million, which includes two fire trucks and over 100 vehicles.
- Equipment Miscellaneous - $1.1 million.

Transfers:

- $78.0 million was transferred from completed construction in progress projects as noted above.

Depreciation note:

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. This fiscal year, depreciable capital assets for governmental and business type activities combined incurred $101.2 million in depreciation.

Analysis of capital assets from fiscal year 2005-2006 to fiscal year 2006-2007:

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)
	2007	2006	2007	2006	2007	2006	Percent of Change
Infrastructure	$ 1,043,655	$ 994,455	$ 31,188	$ 30,137	$ 1,074,843	$ 1,024,592	5%
Land and Easements	333,097	320,426	21,419	21,095	354,516	341,521	4%
Land Improvements	99	-	6,571	7,153	6,670	7,153	-7%
Structures and Improvements	403,199	465,921	150,468	155,922	553,667	621,843	-11%
Equipment	93,147	84,044	19,299	17,566	112,446	101,610	11%
Construction in Progress	327,981	195,814	28,150	17,601	356,131	213,415	67%
Total	$ 2,201,178	$ 2,060,660	$ 257,095	$ 249,474	$ 2,458,273	$ 2,310,134	6%

Additional information on the County's capital assets can be found in Note 9 of this report.

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, 2007, the County had several debt issues outstanding, principally certificates of participation—lease rental obligations.

Net bonded debt per capita equaled $361 as of June 30, 2007. The calculated legal debt limit for the County is $2.6 billion. On August 2, 2007, Moody's Investors Service upgraded the County's issuer rating to Aa3. 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	Aa3	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 2006-07, the County, as a participant in the California Statewide Communities Development Authority Pool, issued $235.0 million in TRANs to satisfy short-term cash flow needs. Included in this amount was the $68.0 million of taxable notes to pre-pay the County fiscal year 2006-07 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 $86.2 million. The $86.2 million was comprised of $67.7 million representing fiscal year 2006-07 delinquent property taxes and $18.5 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, 2007.

County's Outstanding Debt Obligation
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Variance
	2007	2006	2007	2006	2007	2006	
Loans payable	$ 310,139	$ 113,383	$ -	$ -	$ 310,139	$ 113,383	174%
Bonds payable	806,398	814,443	181,263	191,142	987,661	1,005,585	-2%
Certificates of participation	335,866	348,486	-	-	335,866	348,486	-4%
Capital Leases	87,337	83,829	17,844	14,993	105,181	98,822	6%
Total Outstanding	$ 1,539,740	$ 1,360,141	$ 199,107	$ 206,135	$ 1,738,847	$ 1,566,276	11%

Outstanding Debt: The County of Riverside's total debt increased by 10.7%, $172.6 million ($179.6 million in governmental funds less $7.0 million in business-type), during the current fiscal year. The key factors in this increase are as follows:

- The issuance of the RDA's 2007 Loans Payable for $203.5 million, which refunded and defeased $11.4 million of the 1998 loans payable. The bonds are payable solely from and secured by an assignment and pledge of certain tax revenues derived from taxes assessed on property within the project areas and other amounts allocated and paid to the Agency.

- The issuance of RDA's 2007 Tax Allocation Refunding Bonds for $89.9 million as a result of current low interest rates to save money on debt service, which refunded and defeased $87.9 million of the 2001 Tax Allocation Bonds. The bonds are special obligations of the Agency and are payable exclusively from tax revenues to be derived from the various project areas and from amounts on deposit in certain funds and accounts established pursuant to the Indenture.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The county's economic outlook is cautious as the current national housing-market decline appears to be more extensive than predicted. While the onset of this economic slowdown was anticipated, the length and severity are much more difficult to forecast. The county exercises strong fiscal discipline by controlling service expansion, conservatively estimating revenue, and building up reserves. This strategy should protect the continuity of county services for the next several years. Moody's Investment Services commended the county in mid 2007 for its financial prowess and upgraded its credit rating to high quality.

General fund reserves for fiscal year 2007-08 are expected to exceed $400 million and will be drawn down selectively to fund high-priority capital projects. The fiscal year 2007-08 budget set aside $15 million of ongoing discretionary revenue to fund staff for jail expansion now under construction. Fiscal year 2007-08 discretionary revenue is expected to exceed fiscal year 2006-07 by about 7.3 percent ($88.4 million). Following is a summary depicting the general sources of fiscal year 2007-08 discretionary revenue.

Summary of Fiscal Year 2007-08
General-Fund Discretionary Revenue (in thousands)

Source	Final Budget Estimate
Property Taxes	$ 355,800
Motor Vehicle In Lieu	216,600
Interest	50,400
Sales Tax *	42,700
Documentary Transfer Tax	16,000
Fines and Penalties	29,400
Tax Loss Reserve Fund-Overflow	10,000
Franchise Tax	6,400
Other (Prior Year & Miscellaneous)	3,300
Federal In-Lieu Taxes	1,800
Tipping fees (El Sobrante)	1,600
Transient Occupancy Tax	1,500
Total	$ 735,500

* Does not include public safety sales tax revenue

The County's employee retirement benefit contribution rate for fiscal year 2007-08 for miscellaneous members is 12.05% and the Safety contribution rate is 18.63%. 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 2008-09 rates are projected at 11.9% (Miscellaneous) and 18.4% (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 22.52% in fiscal year 2006-07 and 16.63% in fiscal year 2007-08 yielding a total assessed property tax roll of $ 239.5 billion for fiscal year 2007-08. The $34.1 billion increase reflected the over 920,000 assessments and a growing county population that surpassed 2 million.

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.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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MARIA CHAVEZ
"Hermano y Hermana"

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COUNTY OF RIVERSIDE
Statement of Net Assets
June 30, 2007
(Dollars in Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Children and Families Commission
ASSETS:				
Cash and investments (Note 5)	$ 1,544,755	$ 110,374	$ 1,655,129	$ 52,595
Receivables, net (Notes 1 and 7)	390,440	83,157	473,597	5,996
Inventories	7,170	7,114	14,284	-
Internal balances (Note 8)	16,918	(16,918)	-	-
Pension asset, net (Note 18)	398,069	3,252	401,321	-
Prepaid items and deposits	12,889	1,192	14,081	8
Restricted cash and investments (Notes 5 and 6)	402,331	125,006	527,337	-
Other noncurrent receivables (Note 7)	65,899	-	65,899	-
Notes receivable (Note 7)	24,983	-	24,983	-
Land held for resale	43,704	-	43,704	-
Capital assets (Note 9):				
Depreciable assets, net	1,540,100	207,526	1,747,626	98
Nondepreciable assets	661,078	49,569	710,647	-
Bond issuance costs	18,007	1,821	19,828	-
Total assets	5,126,343	572,093	5,698,436	58,697
LIABILITIES:				
Accounts payable	133,652	14,996	148,648	2,286
Salaries and benefits payable	81,954	12,645	94,599	138
Due to other governments	44,424	9,180	53,604	261
Interest payable	13,057	778	13,835	-
Deposits payable	169	91	260	-
Notes payable (Note 12)	86,222	-	86,222	-
Other liabilities	1,860	3,150	5,010	-
Unearned revenue (Note 7)	118,946	-	118,946	-
Long-term liabilities (Note 13) :				
Due within one year	164,122	30,140	194,262	120
Due beyond one year	1,639,034	296,596	1,935,630	83
Total liabilities	2,283,440	367,576	2,651,016	2,888
NET ASSETS:				
Invested in capital assets, net of related debt	903,076	53,321	956,397	98
Restricted for:				
Children's programs	-	-	-	55,711
Community development	390,776	-	390,776	-
Debt service	42,770	36,861	79,631	-
Health and sanitation	9,750	13,335	23,085	-
Public protection	52,510	-	52,510	-
Public ways & facilities	69,988	-	69,988	-
Other programs	3,683	433	4,116	-
Unrestricted	1,370,350	100,567	1,470,917	-
Total net assets	$ 2,842,903	$ 204,517	$ 3,047,420	$ 55,809

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, 2007
(Dollars in Thousands)

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets — Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
FUNCTION/PROGRAM ACTIVITIES:								
Primary government:								
Governmental activities:								
General government	$ 296,917	$ 171,070	$ 91,528	$ -	$ (34,319)	$ -	$ (34,319)	
Public protection	935,550	307,288	252,027	306	(375,929)	-	(375,929)	
Public ways and facilities	57,578	63,603	20,057	46,700	72,782	-	72,782	
Health and sanitation	350,082	49,650	162,308	-	(138,124)	-	(138,124)	
Public assistance	688,213	2,547	678,597	-	(7,069)	-	(7,069)	
Education	14,847	8,628	451	1,180	(4,588)	-	(4,588)	
Recreation and culture	11,941	6,409	5,973	-	441	-	441	
Interest on long-term debt	81,197	-	-	-	(81,197)	-	(81,197)	
Total governmental activities	2,436,325	609,195	1,210,941	48,186	(568,003)	-	(568,003)	
Business-type activities:								
Regional Medical Center	329,128	337,905	-	261	-	9,038	9,038	
Waste Management Department	60,772	64,031	-	-	-	3,259	3,259	
Housing Authority	70,218	67,312	-	-	-	(2,906)	(2,906)	
Flood Control	6,242	6,032	-	-	-	(210)	(210)	
County Service Areas	329	331	-	-	-	2	2	
Total business-type activities	466,689	475,611	-	261	-	9,183	9,183	
Total primary government	$ 2,903,014	$ 1,084,806	$ 1,210,941	$ 48,447	(568,003)	9,183	(558,820)	
Component unit:								
Children and Families First Commission	$ 27,277	$ -	$ 27,888	$ -				$ 611
General revenues:								
Taxes:								
Property taxes					462,817	-	462,817	-
Sales and use taxes					51,093	-	51,093	-
Other taxes					16,865	-	16,865	-
Intergovernmental revenue not restricted to programs:								
Motor vehicle in-lieu of taxes					245,723	-	245,723	-
Investment earnings					122,517	10,198	132,715	2,527
Other					13,191	-	13,191	188
Transfers					(16,892)	16,892	-	-
Total general revenues and transfers					895,314	27,090	922,404	2,715
Changes in net assets					327,311	36,273	363,584	3,326
NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 4)					2,515,592	168,244	2,683,836	52,483
NET ASSETS, END OF YEAR					$ 2,842,903	$ 204,517	$ 3,047,420	$ 55,809

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

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BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

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COUNTY OF RIVERSIDE

Balance Sheet

Governmental Funds

June 30, 2007

(Dollars in Thousands)

	General	Teeter Debt Service	Public Facilities Improvements Capital Projects	Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and investments (Note 5)	$ 283,080	$ -	$ 255,605	$ 351,483	$ 433,568	$ 1,323,736
Accounts receivable (Notes 1 and 7)	60,621	-	2,713	-	9,316	72,650
Interest receivable (Note 7)	14,673	394	2,528	3,531	4,495	25,621
Taxes receivable (Note 7)	40,766	37,042	-	-	10,107	87,915
Due from other governments (Note 7)	252,411	-	20	-	13,016	265,447
Inventories	1,540	-	-	1,954	933	4,427
Due from other funds (Note 8)	5,417	-	-	-	1,776	7,193
Prepaid items	-	-	-	-	12,878	12,878
Restricted cash and investments (Notes 5 and 6)	263,390	53,688	-	-	85,253	402,331
Advance to other funds (Note 8)	37	-	-	-	-	37
Notes receivable (Note 7)	-	-	-	-	24,983	24,983
Land held for resale	-	-	-	34,165	9,539	43,704
Total assets	921,935	91,124	260,866	391,133	605,864	2,270,922
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	82,441	25	3,600	3,281	34,360	123,707
Salaries and benefits payable	70,585	-	-	-	6,448	77,033
Due to other governments	41,432	-	678	-	2,222	44,332
Due to other funds (Note 8)	288	4,877	-	403	1,190	6,758
Deposits payable	70	-	-	-	99	169
Teeter notes payable (Note 12)	-	86,222	-	-	-	86,222
Advances from other funds	-	-	-	-	37	37
Deferred revenue (Note 7)	156,155	-	250	-	23,246	179,651
Total liabilities	350,971	91,124	4,528	3,684	67,602	517,909
Fund balances (Note 14):						
Reserved	88,233	-	256,338	269,263	192,566	806,400
Unreserved, designated, reported in:						
General fund	339,773	-	-	-	-	339,773
Special revenue funds	-	-	-	-	187,664	187,664
Capital projects funds	-	-	-	118,186	9,671	127,857
Unreserved, undesignated, reported in:						
General fund	142,958	-	-	-	-	142,958
Special revenue funds	-	-	-	-	148,361	148,361
Total fund balances	570,964	-	256,338	387,449	538,262	1,753,013
Total liabilities and fund balances	$ 921,935	$ 91,124	$ 260,866	$ 391,133	$ 605,864	$ 2,270,922

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

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, 2007
(Dollars in Thousands)

Fund balances - total governmental funds (page 29)		$ 1,753,013
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.		2,155,180
Bond issuance costs are not current financial resources and therefore are not reported in the governmental funds.		18,007
Net pension assets are not current financial resources and therefore are not reported in the governmental funds.		398,069
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.		60,705
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	$ 806,398	
Capital lease obligations	61,123	
Certificates of participation	335,866	
Loans payable	310,139	
Accrued interest payable	13,057	
Accreted interest payable	1,780	
Compensated absences	119,563	(1,647,926)
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.		105,855
Net assets of governmental activities (page 23)		$ 2,842,903

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, 2007
(Dollars in Thousands)

	General Fund	Teeter Debt Service	Public Facilities Improvements Capital Projects	Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	$ 301,575	$ -	$ -	$ -	$ 221,453	$ 523,028
Licenses, permits, and franchise fees	25,803	-	-	-	178	25,981
Fines, forfeitures, and penalties	81,148	-	-	-	1,798	82,946
Use of money and property:						
Interest	62,848	1,330	11,734	12,976	24,901	113,789
Rents and concessions	2,805	-	-	-	40,366	43,171
Aid from other governmental agencies:						
Federal	430,606	-	-	-	66,079	496,685
State	893,390	-	-	-	44,240	937,630
Other	81,703	-	-	-	7,408	89,111
Charges for services	319,198	-	36,530	2,248	73,700	431,676
Other revenue	38,856	-	34,961	2,492	39,554	115,863
Total revenues	2,237,932	1,330	83,225	17,716	519,677	2,859,880
EXPENDITURES:						
Current:						
General government	119,365	735	82,355	40,606	77,193	320,254
Public protection	916,524	-	-	-	55,482	972,006
Public ways and facilities	4,505	-	14	-	152,536	157,055
Health and sanitation	341,467	-	-	-	7,454	348,921
Public assistance	644,912	-	-	-	41,383	686,295
Education	394	-	-	-	14,436	14,830
Recreation and culture	203	-	-	-	11,504	11,707
Debt service:						
Principal	17,659	-	-	-	26,563	44,222
Interest	12,092	2,683	-	-	63,429	78,204
Cost of issuance	-	-	-	-	5,565	5,565
Capital outlay	8,811	-	-	-	49,714	58,525
Total expenditures	2,065,932	3,418	82,369	40,606	505,259	2,697,584
Excess (deficiency) of revenues over (under) expenditures	172,000	(2,088)	856	(22,890)	14,418	162,296
OTHER FINANCING SOURCES (USES):						
Transfers in	89,449	3,441	71,061	16,687	132,406	313,044
Transfers out	(146,214)	(1,353)	(38,562)	(16,106)	(126,389)	(328,624)
Issuance of debt	-	-	-	199,327	94,446	293,773
Premium on long-term debt	-	-	-	-	2,876	2,876
Issuance of refunding bonds	-	-	-	-	(103,396)	(103,396)
Proceeds from sale of capital assets	-	-	-	916	-	916
Capital leases	8,811					8,811
Total other financing sources (uses)	(47,954)	2,088	32,499	200,824	(57)	187,400
NET CHANGE IN FUND BALANCES	124,046	-	33,355	177,934	14,361	349,696
Fund balances, beginning of year, as previously reported	446,918	-	222,983	208,704	521,949	1,400,554
Adjustments to beginning fund balances (Note 4)	-	-	-	811	1,952	2,763
Fund balances, beginning of year, as restated	446,918	-	222,983	209,515	523,901	1,403,317
FUND BALANCES, END OF YEAR	$ 570,964	$ -	$ 256,338	$ 387,449	$ 538,262	$ 1,753,013

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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, 2007
(Dollars in Thousands)

Net change in fund balances - total governmental funds (page 33)		$ 349,696
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	$ 284,812	
Less loss on sale of capital assets	(75,875)	
Less current year depreciation	(71,569)	137,368
Prepaid pension costs are expended in the governmental funds when paid but are recognized as a financial resource in the statement of net assets.		10,124
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.		4,018
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		(172,970)
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.		(26,626)
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	(1,950)	
Change in accreted interest	(285)	
Change in long-term compensated absences	(2,712)	(4,947)
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.		30,648
Change in net assets of governmental activities (page 25)		$ 327,311

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, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 291,700	$ 329,678	$ 301,575	$ (28,103)
Licenses, permits, and fees	29,741	29,751	25,803	(3,948)
Fines, forfeitures, and penalties	48,264	53,418	81,148	27,730
Use of money and property:				
Interest	52,141	53,541	62,848	9,307
Rents and concessions	22,599	22,649	2,805	(19,844)
Aid from other governmental agencies:				
Federal	418,893	445,222	430,606	(14,616)
State	846,088	919,087	893,390	(25,697)
Other government	372	506	81,703	81,197
Charges for current services	444,579	387,547	319,198	(68,349)
Other revenue	140,524	157,876	38,856	(119,020)
Total revenues	2,294,901	2,399,275	2,237,932	(161,343)
EXPENDITURES:				
Current:				
General government				
Salaries and employee benefits	99,031	94,808	91,171	(3,637)
Services and supplies	90,954	110,053	102,253	(7,800)
Other charges	109,061	55,044	12,147	(42,897)
Capital assets	244	1,629	674	(955)
Intrafund transfers	(80,643)	(92,741)	(86,880)	5,861
Appropriation for contingencies	32,081	36,989	-	(36,989)
Total general government	250,728	205,782	119,365	(86,417)
Public protection:				
Salaries and employee benefits	599,548	597,950	584,050	(13,900)
Services and supplies	297,054	319,794	300,209	(19,585)
Other charges	53,586	57,250	34,896	(22,354)
Capital assets	6,809	12,347	6,825	(5,522)
Intrafund transfers	(9,280)	(9,659)	(9,456)	203
Total public protection	947,717	977,682	916,524	(61,158)
Health and sanitation:				
Salaries and employee benefits	176,611	178,595	160,856	(17,739)
Services and supplies	95,412	117,717	107,682	(10,035)
Other charges	216,701	232,507	176,346	(56,161)
Capital assets	4,858	6,164	787	(5,377)
Intrafund transfers	(112,408)	(113,139)	(104,204)	8,935
Total health and sanitation	381,174	421,844	341,467	(80,377)
Public assistance:				
Salaries and employee benefits	208,128	200,731	192,450	(8,281)
Services and supplies	78,583	90,234	80,390	(9,844)
Other charges	392,648	392,873	383,987	(8,886)
Capital assets	100	628	628	-
Intrafund transfers	(16,411)	(16,411)	(12,543)	3,868
Total public assistance	$ 663,048	$ 668,055	$ 644,912	$ (23,143)

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, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Over (Under)
Education:				
Salaries and employee benefits	$ 230	$ 231	$ 230	$ (1)
Services and supplies	161	163	164	1
Total education	391	394	394	-
Public ways and facilities:				
Salaries and employee benefits	4,732	4,551	3,515	(1,036)
Services and supplies	1,414	1,438	863	(575)
Other charges	596	85	-	(85)
Capital assets	141	314	128	(186)
Intrafund transfers	(267)	(266)	(1)	265
Total public ways and facilities	6,616	6,122	4,505	(1,617)
Recreation and culture:				
Salaries and employee benefits	91	81	68	(13)
Services and supplies	141	201	159	(42)
Other charges	75	20	-	(20)
Capital assets	-	105	-	(105)
Intrafund transfers	-	(25)	(24)	1
Total recreation and culture	307	382	203	(179)
Debt service:				
Principal	50,575	41,750	17,659	(24,091)
Interest	10,870	10,870	12,092	1,222
Total debt service	61,445	52,620	29,751	(22,869)
Capital outlay	-	8,811	8,811	-
Total expenditures	2,311,426	2,341,692	2,065,932	(275,760)
Excess (deficiency) of revenues over (under) expenditures	(16,525)	57,583	172,000	114,417
OTHER FINANCING SOURCES (USES):				
Transfers in	-	89,449	89,449	-
Transfers out	-	(146,214)	(146,214)	-
Capital leases	-	-	8,811	8,811
Total other financing sources (uses)	-	(56,765)	(47,954)	8,811
NET CHANGE IN FUND BALANCE	(16,525)	818	124,046	123,228
Fund balance, beginning of year	446,918	446,918	446,918	-
FUND BALANCE, END OF YEAR	$ 430,393	$ 447,736	$ 570,964	$ 123,228

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, 2007
(Dollars in Thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities
	Regional Medical Center	Waste Management	Other	Total	Internal Service Funds
ASSETS:					
Current assets:					
Cash and investments (Note 5)	$ 64,778	$ 38,603	$ 6,993	$ 110,374	$ 221,019
Accounts receivable - net (Notes 1 and 7)	57,221	5,011	2,585	64,817	2,470
Interest receivable (Note 7)	477	1,362	88	1,927	2,114
Taxes receivable (Note 7)	-	-	9	9	-
Due from other governments (Note 7)	12,564	256	3,584	16,404	122
Advances to other funds (Note 8)	-	-	-	-	200
Inventories	6,752	362	-	7,114	2,743
Pension asset, net	-	3,252	-	3,252	-
Due from other funds (Note 8)	-	-	-	-	184
Restricted cash and investments (Notes 5 and 6)	37,054	83,320	4,632	125,006	-
Prepaid items and deposits	1,160	-	32	1,192	11
Total current assets	180,006	132,166	17,923	330,095	228,863
Noncurrent assets:					
Capital assets (Note 9):					
Depreciable assets	147,848	45,457	14,221	207,526	45,648
Nondepreciable assets	18,544	25,785	5,240	49,569	350
Bond issuance costs	1,821	-	-	1,821	-
Total noncurrent assets	168,213	71,242	19,461	258,916	45,998
Total assets	348,219	203,408	37,384	589,011	274,861
LIABILITIES					
Current liabilities:					
Accounts payable	9,166	2,955	2,875	14,996	9,945
Salaries and benefits payable	11,400	1,135	110	12,645	4,921
Due to other funds (Note 8)	565	-	-	565	54
Due to other governments	9,176	4	-	9,180	92
Other liabilities	768	313	2,938	4,019	1,860
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)	8,762	813	96	9,671	2,866
Capital lease obligations (Note 13)	3,929	-	-	3,929	9,761
Bonds payable (Note 13)	10,960	-	100	11,060	-
Estimated claims liabilities (Notes 13 and 15)	-	-	-	-	39,594
Total current liabilities	54,726	10,700	6,119	71,545	69,093
Noncurrent liabilities:					
Compensated absences (Note 13)	4,514	1,728	950	7,192	2,479
Advances from other funds (Note 8)	-	-	-	-	200
Accrued closure and post closure care costs (Note 10)	-	45,638	-	45,638	-
Accrued remediation costs (Note 21)	-	18,531	-	18,531	-
Capital lease obligations (Notes 1 and 13)	13,915	-	-	13,915	16,453
Bonds payable (Note 13)	169,342	-	861	170,203	-
Estimated claims liabilities (Notes 13 and 15)	-	-	-	-	95,634
Other long-term liabilities (Note 13)	34,322	-	6,795	41,117	1,500
Total noncurrent liabilities	222,093	65,897	8,606	296,596	116,266
Total liabilities	276,819	76,597	14,725	368,141	185,359
NET ASSETS:					
Invested in capital assets, net of related debt	(30,587)	71,242	12,666	53,321	18,284
Restricted for debt service	36,861	-	-	36,861	-
Restricted for health and sanitation	-	13,335	-	13,335	-
Restricted other	193	-	240	433	-
Unrestricted	64,933	42,234	9,753	116,920	71,218
Total net assets	$ 71,400	$ 126,811	$ 22,659	220,870	$ 89,502
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				(16,353)	
Net assets of business-type activities				$ 204,517	

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, 2007
(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)	$ 272,615	$ -	$ -	$ 272,615	$ -
Charges for services	4,067	61,108	8,663	73,838	166,909
Other revenue	61,223	2,923	65,012	129,158	29,758
Total operating revenues	337,905	64,031	73,675	475,611	196,667
OPERATING EXPENSES:					
Cost of materials used	-	185	-	185	1,785
Personnel services	165,602	17,549	9,609	192,760	68,049
Communications	1,820	324	2	2,146	4,205
Insurance	6,993	578	2	7,573	7,800
Maintenance of building and equipment	6,301	2,220	1,669	10,190	10,258
Insurance claims	-	-	-	-	61,695
Supplies	43,508	2,596	14	46,118	32,033
Purchased services	65,935	22,976	3,361	92,272	16,464
Depreciation and amortization	8,477	4,369	1,844	14,690	15,406
Rents and leases of equipment	3,998	160	21	4,179	2,614
Public assistance	-	-	57,739	57,739	-
Utilities	3,815	251	620	4,686	262
Closure and post-closure care costs	-	3,266	-	3,266	-
Remediation costs (recovery)	-	2,483	-	2,483	-
Other	7,168	3,485	1,041	11,694	3,587
Total operating expenses	313,617	60,442	75,922	449,981	224,158
Operating income (loss)	24,288	3,589	(2,247)	25,630	(27,491)
NONOPERATING REVENUES (EXPENSES):					
Investment income	3,423	5,973	802	10,198	8,733
Interest expense	(13,366)	-	(191)	(13,557)	(1,043)
Gain (loss) on disposal of capital assets	27	272	-	299	53
Total nonoperating revenues (expenses)	(9,916)	6,245	611	(3,060)	7,743
Income (loss) before capital contributions and transfers	14,372	9,834	(1,636)	22,570	(19,748)
Capital contributions	261	-	-	261	48,258
Transfers in	19,953	763	-	20,716	3,116
Transfers out	(3,422)	(240)	(162)	(3,824)	(4,428)
CHANGE IN NET ASSETS	31,164	10,357	(1,798)	39,723	27,198
Net assets, beginning of the year	40,236	116,454	24,457		62,304
NET ASSETS, END OF YEAR	$ 71,400	$ 126,811	$ 22,659		$ 89,502
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(3,450)	
Change in net assets of business-type activities				$ 36,273	

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, 2007
(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	$ 332,872	$ 64,051	$ 69,429	$ 466,352	$ 196,225
Cash paid to suppliers for goods and services	(132,286)	(37,180)	(64,337)	(233,803)	(137,614)
Cash paid to employees for services	(162,657)	(17,459)	(9,791)	(189,907)	(67,495)
Net cash provided by (used in) operating activities	37,929	9,412	(4,699)	42,642	(8,884)
Cash flows from noncapital financing activities					
Pension assets, net	-	434	-	434	-
Transfers received	19,953	763	-	20,716	3,116
Transfers paid	(3,422)	(240)	(162)	(3,824)	(4,428)
Net cash provided by (used in) noncapital financing activities	16,531	957	(162)	17,326	(1,312)
Cash flows from capital and related financing activities					
Proceeds from sale of capital assets	27	272	-	299	1,430
Acquisition and construction of capital assets	(2,059)	(14,817)	(611)	(17,487)	(6,674)
Principal paid on capital leases	(1,973)	-	-	(1,973)	(6,631)
Capital Contributions	261	-	-	261	48,258
Principal paid on bonds payable	(9,858)	-	(21)	(9,879)	-
Interest paid on long-term debt	(13,363)	-	(191)	(13,554)	(1,043)
Net cash provided by (used in) capital and related financing activities	(26,965)	(14,545)	(823)	(42,333)	35,340
Cash flows from investing activities					
Interest received on investments	3,421	5,575	768	9,764	7,760
Net cash provided by investing activities	3,421	5,575	768	9,764	7,760
Net increase (decrease) in cash and cash equivalents	30,916	1,399	(4,916)	27,399	32,904
Cash and cash equivalents, beginning of year	70,916	120,524	16,541	207,981	188,115
Cash and cash equivalents, end of year	$ 101,832	$ 121,923	$ 11,625	$ 235,380	$ 221,019

COUNTY OF RIVERSIDE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ending June 30, 2007
(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					
Operating income (loss)	$ 24,288	$ 3,589	$ (2,247)	$ 25,630	$ (27,491)
Adjustments to reconcile operating income to net cash					
Depreciation and amortization	8,477	4,369	1,844	14,690	15,406
Decrease (Increase) accounts receivable	(9,201)	30	(797)	(9,968)	(136)
Decrease (Increase) bond issuance cost	367	-	-	367	-
Decrease (Increase) due from other funds	1,189	-	-	1,189	(184)
Decrease (Increase) due from other governments	2,612	(10)	(3,449)	(847)	(122)
Decrease (Increase) inventories	(1,032)	(23)	-	(1,055)	(410)
Decrease (Increase) prepaid items and deposits	458	-	6	464	100
Increase (Decrease) accounts payable	(3,734)	(819)	2,557	(1,996)	(1,504)
Increase (Decrease) due to other funds	(1,798)	-	-	(1,798)	54
Increase (Decrease) due to other governments	9,176	4	-	9,180	92
Increase (Decrease) accrued closure costs	-	(784)	-	(784)	-
Increase (Decrease) accrued remediation costs	-	2,879	-	2,879	-
Increase (Decrease) other liabilities	4,182	87	(2,431)	1,838	(307)
Increase (Decrease) estimated claims liability	-	-	-	-	5,064
Increase (Decrease) salaries and benefits payable	1,426	90	1	1,517	543
Increase (Decrease) compensated absences	1,519	-	(183)	1,336	11
Net cash provided by (used in) operating activities	$ 37,929	$ 9,412	$ (4,699)	$ 42,642	$ (8,884)
Supplemental disclosure of noncash investing, capital, and financing activities	$ 358			$ 358	$ 13,259

COUNTY OF RIVERSIDE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust	Agency Funds
ASSETS:				
Cash and investments (Note 5)	$ -	$ -	$ 15,850	$ 350,245
Federal Agency	7,986	1,630,446	-	-
Cash and Equivalent & MMF	718	146,513	-	-
Commercial Paper	1,906	389,228	-	-
Negotiable CDs	1,994	407,197	-	-
Medium Term Notes	810	165,311	-	-
Municipal Bonds	53	10,781	-	-
Certificates of Deposit	57	11,610	-	-
Local Agency Obligation	16	3,317	-	-
Accounts receivable	210	3,078	1	1
Interest receivable	6	30,806	98	342
Taxes receivable	-	1	-	114,019
Due from other governments	-	-	-	164
Total assets	13,756	2,798,288	15,949	464,771
LIABILITIES:				
Accounts payable	-	-	7,104	183,897
Salaries and benefits payable	-	-	-	10
Due to other governments	-	-	-	280,864
Total liabilities	-	-	7,104	$ 464,771
NET ASSETS:				
Held in trust for pension benefits, external pool participants, and other purposes	$ 13,756	$ 2,798,288	$ 8,845	

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, 2007
(Dollars in Thousands)

	Pension Trust	Investment Trust	Private-Purpose Trust
ADDITIONS:			
Employer contributions	$ 1,914	$ -	$ -
Employee contributions	1,368	-	-
Contributions to pooled investments	-	19,507,350	-
Contributions to Private-Purpose Trust	-	-	4,552
Investment income	584	128,281	467
Total additions	3,866	19,635,631	5,019
DEDUCTIONS:			
Distribution from Pension Trust	132	-	-
Distributions from pooled investments	-	19,212,116	-
Distributions from Private-Purpose Trust	-	-	4,409
Administrative and other expenses	452	-	-
Total deductions	584	19,212,116	4,409
Change in net assets	3,282	423,515	610
Net Assets Held in Trust, beginning of the year	10,474	2,374,773	8,235
Net Assets Held in Trust, end of the year	$ 13,756	$ 2,798,288	$ 8,845

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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COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements
June 30, 2007

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.

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. As of June 30, 2007, this fund had no activity.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of Record for purposes of collective bargaining 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 (the Commission) The Riverside County Board of Supervisors established First 5 Riverside, also known as Riverside County Children and Families Commission in 1999 under the provisions of the California Children and Families Act of 1998. The Commission was formed to develop, adopt, promote and implement early childhood development programs, which also directly benefits the County Department of Health and the County Department of Mental Health

A governing Board of nine members, that administers the Commission, is appointed by the County Board of Supervisors. The Commission Board includes one member of the County Board of Supervisors. The Commission is a component unit of the County because the County's Board has the ability to impose its will by removing the Commission's governing Board at will. It is discretely presented because its governing body is not substantially the same as the County's governing body and it does not provide services entirely or exclusively to 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.

Current 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 to OPEB trust funds included in the financial reports of plan sponsors or employers, as well as to 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. This statement is not applicable to the County. Note 22, subsequent events, has additional information relevant to this Statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Governmental Accounting Standards Board 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 22, subsequent events, has additional information relevant to this Statement.

Governmental Accounting Standards Board Statement No. 48

In September of 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues.* This Statement is effective for periods beginning after December 15, 2006. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability; that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. This Statement includes a provision stipulating that governments should not revalue assets that are transferred between components of the same financial reporting entity, and provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The County has elected not to implement GASB No. 48 early. Note 22, subsequent events, has additional information relevant to this Statement.

Governmental Accounting Standards Board Statement No. 49

In November of 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement is effective for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. For recognized pollution remediation liabilities and recoveries, this Statement requires governments to disclose the nature and source of pollution remediation obligations, the amount of the estimated liability (if not apparent from the financial statements), the methods and assumptions used for the estimate, the potential for changes in estimates, and estimated recoveries that reduce the measurement of the liability. The County has elected not to early implement GASB No. 49 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No. 50

In May of 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.* This Statement is effective for periods beginning after June 15, 2007. This Statement amends statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement amends Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statue or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis. This Statement also amends Statement 27 to require that, if a cost-sharing plan does not issue a publicly available stand-alone plan financial report prepared in accordance with the requirements of Statement 25, as amended, and the plan is not included in the financial report of another

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Governmental Accounting Standards Board Statements (Continued)

entity, each employer in that plan should present as RSI the schedules of funding progress and employer contributions for the plan (and notes to these schedules). The County has elected not to early implement GASB No. 50 and has not determined its effect on the County's financial statements.

Governmental Accounting Standards Board Statement No. 51

In June of 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement is effective for financial statements for periods beginning after June 15, 2009. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also establishes guidance specific to intangible assets related to amortization. The County has elected not to early implement GASB No. 51 and has not determined its effect on the County's financial statements.

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, 43%, or $23.3 million, of the County's $54.1 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)

Basis of Presentation (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 *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 *Public Facilities Improvements Capital Project 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 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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, pension trust, investment trust, and private-purpose trust 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Continued)

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, 2007, 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, 2007 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 83.9% of the funds on deposit in the County Treasury. In addition, the Auditor-Controller determined districts and agencies constituting approximately 16.1% 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 $349.9 million and $546.9 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.

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 2006-07 gross assessed valuation of the County was $205.4 billion.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the RDA has entered into pass-through agreements with various governmental agencies to "pass-through" portions of tax increment funds received by the 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 2006-07, $26.7 million was transferred from the TLRF to the General Fund.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items and Inventories (Continued)

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; buildings, land and land improvements is $1; and infrastructure is $150,000. Betterments result in a more productive, efficient or long-lived assets. Significant betterments are considered capital assets when they result in an improvement of $2,500 or more. 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 $367,000 for the year ended June 30, 2007.

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, and Housing Authority outstanding debt include certain covenants

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $43.7 million at June 30, 2007.

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, 2007, the amount of accrued vacation, holiday pay, and sick leave reported in the government-wide statement of net assets was $141.8 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 10% of the current salary for five full years of service, plus two 2% for each additional year to a maximum of 50% 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, laws and regulations of other governments, or 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, 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.

COUNTY OF RIVERSIDE
MAY 9, 1893

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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 29)	Long-term Assets and Liabilities	Internal Service Funds	Eliminations	Statement of Net Assets Totals (Page 23)
Assets:					
Cash and investments	$ 1,323,736	$ -	$ 221,019	$ -	$ 1,544,755
Receivables:					
Accounts receivable	72,650	-	2,470	-	75,120
Interest	25,621	-	2,114	-	27,735
Taxes	87,915	-	-	-	87,915
Due from other governments	265,447	-	122	-	265,569
Notes receivable	24,983	-	-	-	24,983
Inventories	4,427	-	2,743	-	7,170
Due from other funds	7,193	-	184	(7,377)	-
Prepaid Items	12,878	-	11	-	12,889
Internal balances	-	-	-	16,918	16,918
Pension asset, net	-	398,069	-	-	398,069
Restricted cash and investments	402,331	-	-	-	402,331
Advances to other funds	37	-	200	(237)	-
Land held for resale	43,704	-	-	-	43,704
Capital assets:					
Nondepreciable	-	660,728	350	-	661,078
Depreciable, net	-	1,494,452	45,648	-	1,540,100
Bond issuance costs	-	18,007	-	-	18,007
Total assets	$ 2,270,922	$ 2,571,256	$ 274,861	$ 9,304	$ 5,126,343

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	$ 123,707	$ -	$ 9,945	$ -	$ 133,652
Salaries and benefits payable	77,033	-	4,921	-	81,954
Due to other funds	6,758	-	54	(6,812)	-
Due to other governments	44,332	-	92	-	44,424
Interest payable	-	13,057	-	-	13,057
Deposits payable	169	-	-	-	169
Deferred revenue / Unearned revenue	179,651	(60,705)	-	-	118,946
Notes payable	86,222	-	-	-	86,222
Other Liabilities	-	-	1,860	-	1,860
Long-term liabilities due within one year:		-			
Bonds payable	-	12,025	-	-	12,025
Capital lease obligations	-	11,358	9,761	-	21,119
Certificates of participation	-	14,057	-	-	14,057
Loans payable	-	5,330	-	-	5,330
Compensated absences	-	69,131	2,866	-	71,997
Estimated claims liability	-	-	39,594	-	39,594
Advance from other funds	37	-	200	(237)	-
Long-term liabilities due in more than one year:		-			
Bonds payable	-	794,373	-	-	794,373
Capital lease obligations	-	49,765	16,453	-	66,218
Certificates of participation	-	321,809	-	-	321,809
Loans payable	-	304,809	-	-	304,809
Accreted interest payable	-	1,780	-	-	1,780
Compensated absences	-	50,432	2,479	-	52,911
Estimated claims liability	-	-	95,634	-	95,634
Other long term liabilities	-	-	1,500	-	1,500
Total liabilities	517,909	1,587,221	185,359	(7,049)	2,283,440
Fund balances/net assets:					
Total fund balances/net assets	1,753,013	984,035	89,502	16,353	2,842,903
Total liabilities and fund balances/net assets	$ 2,270,922	$ 2,571,256	$ 274,861	$ 9,304	$ 5,126,343

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, 2007 is as follows (in thousands):

Governmental Funds:

	Major Fund	Nonmajor Funds	
Description	Redevelopment Agency Capital Projects Fund	Redevelopment Agency Special Revenue Fund	Redevelopment Agency Debt Service Fund
Fund balances as of June 30, 2006, as previously reported	$ 208,704	$ 98,286	$ 36,543
Prior Period Adjustments:			
Land Held for Resale expensed in prior years	811		
Loan Receivable not recognized in prior years		1,507	
Accounts payable correction from prior years			445
Fund balances, as of June 30, 2006, as restated	$ 209,515	$ 99,793	$ 36,988

Government-wide:

	Governmental Activities
Government-wide net assets, as of June 30, 2006, as previously reported	$ 2,512,829
Restatements:	
Fund financial statements:	
Land Held for Resale expensed in prior years	811
Loan Receivable not recognized in prior years	1,507
Accounts payable correction from prior years	445
Net assets as of June 30, 2006, as restated	$ 2,515,592

NOTE 5 – CASH AND INVESTMENTS

Cash and Investments

As of June 30, 2007, 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	$ 1,544,755	$ 110,374	$ 52,595	$ 3,144,038	$ 4,851,762
Restricted cash and investments	402,331	125,006	-	-	527,337
Total cash and investments	$ 1,947,086	$ 235,380	$ 52,595	$ 3,144,038	$ 5,379,099

As of June 30, 2007, cash and investments consist of the following (in thousands):

Deposits	$ 526,324
Investments	4,852,775
Total cash and Investments	$ 5,379,099

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 County 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%	100MM
Certificate & Time Deposits	1 Year	25.0%	50MM
Repurchase Agreements	45 Days	40% / 25%	20%
Reverse Repurchase Agreements	60 Days	10%	10%
Medium Term Notes	2 Years	20%	30MM
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	5 Years	20%	None
Local Agency Investment Funds	3 Years	2.5%	1.25%

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.

NOTE 5 – CASH AND INVESTMENTS (Continued)

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.

As of June 30, 2007, the County had the following investments (in thousands):

Held by Fiscal Agents:

Investment	Maturity	Fair Market Value	Weighted Average Maturity (Years)
Treasury Investments			
Commercial Paper	07/07 - 10/07	$ 688,594	0.18
Federal Farm Credit Bank	07/07 - 06/10	259,051	1.33
Federal Home Loan Bank	07/07 - 06/10	830,008	1.66
FHLC - FHLB	07/07 - 06/10	583,165	1.67
Fed Nat Mortg Assoc	07/07 - 06/10	973,591	1.96
Local Agency Obligations	05/08 - 06/20	5,695	3.17
Medium Term Notes	11/07 - 05/09	284,051	0.88
Municipal Bonds	08/07-05/10	18,656	1.36
Negotiable CDs	07/07-05/08	719,003	0.20
Time Deposits	09/07-10/07	20,000	0.23
Total Treasury Investments		4,381,814	
Investments Outside the Treasury			
Money Market	NA	49,952	0.03
Guaranteed Investment Contract	06/20	19,600	6.93
Guaranteed Investment Contract	07/07-11/33	32,255	14.62
Investment Agreements	09/08	70,120	0.22
Investment Agreements	10/09	91,699	0.55
Investment Agreements	10/10	195,630	1.71
Investment Agreements	10/37	7,340	0.60
Local Agency Investment Funds	NA	4,365	0.00
Total Investments Outside the Treasury		470,961	
Total Investments		$ 4,852,775	

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.

NOTE 5 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk *(Continued)*

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 $489.8 million. Investment securities are registered and held in the name of Riverside County.

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	$ 259,051
Federal Home Loan Bank	Federal Agency	830,008
FHLC-FHLB Mortgage Certificates	Federal Agency	583,165
Federal National Mortgage Association	Federal Agency	973,591

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, 2007, the County had the following investments (in thousands):

Investment	Maturity	Minimum Legal Rating	Rating June 30, 2007	Fair Market Value
Treasury Investments				
Commercial Paper	07/06 - 11/06	A1/P1	A1/P1(1)	$ 688,594
Federal Farm Credit Bank	07/06 - 09/08	N/A	AAA	259,051
Federal Home Loan Bank	07/06 - 06/09	N/A	AAA	830,008
FHLC - FHLB	09/06 - 06/09	N/A	AAA	583,165
Federal Nat Mort Assn	07/06 - 06/09	N/A	AAA	973,591
Local Agency Obligations	07/12 - 06/20	NA	NA	5,695
Medium Term Notes	09/06 - 01/08	A	AA(2)	284,051
Municipal Bonds	08/06 - 08/07	A	AA(2)	18,656
Negotiable CDs	07/06 - 11/06	A1/P1	A1/P1(1)	719,003
Time Deposits	09/06 - 10/06	N/A	N/A	20,000
Total Treasury Investments				4,381,814
Investments Outside the Treasury				
Money Market	NA	AAA	AAA	49,952
Guaranteed Investment Contracts	06/20	AA	AAA	19,600
Guaranteed Investment Contracts	07/07-11-33	AA	AA+	32,255
Investment Agreements	09/08	AA	AAA	70,120
Investment Agreements	10/09	AA	AAA	91,699
Investment Agreements	10/10	AA	AAA	195,630
Investment Agreements	10/37	AA	AAA	7,340
Local Agency Investment Funds	NA	NA	NR	4,365
Total Investments Outside the Treasury				470,961
Total Investments				$ 4,852,775

(1) Majority of Commercial Paper and Negotiable CD are A1+/P1
(2) All Medium Term Notes with a maturity greater than a year are AAA

NOTE 6 – RESTRICTED CASH AND INVESTMENTS

The amount of assets restricted by legal and contractual requirements at June 30, 2007 is as follows (in thousands):

	General Fund	Teeter Debt Service	Nonmajor Governmental Funds	Regional Medical Center	Waste Management Department	Nonmajor Enterprise Funds
1985 Certificates	$ -	$ -	$ 23,293	$ -	$ -	$ -
1993 Hospital Bonds	-	-	-	36,001	-	-
1990 Monterey Avenue	-	-	133	-	-	-
1997 B & C Hospital	-	-	-	30	-	-
1997 Historic Court House	-	-	268	-	-	-
1997 Lease Refunding	-	-	402	-	-	-
1998 Larson Justice Center	-	-	27	-	-	-
2000 Southwest Justice Center	-	-	501	-	-	-
2001 CAC Annex	-	-	2,557	-	-	-
2003 A Historic Courthouse	-	-	1,287	-	-	-
2003 B Capital Facilities	-	-	1,128	-	-	-
2005 A Capital Improvement Family Law	-	-	21,451	-	-	-
2005 B Historic Refunding	-	-	2,263	-	-	-
2006 A Capital Improvements	-	-	12,072	-	-	-
Waste Management	-	-	-	-	83,320	-
Housing Authority Bond	-	-	-	-	-	1,954
Restricted Program Money	263,390	-	14,100	1,023	-	2,678
Teeter Commercial Paper Notes	-	53,688	-	-	-	-
Riverside Court Fin Corp	-	-	5,771	-	-	-
Total Restricted Assets	$ 263,390	$ 53,688	$ 85,253	$ 37,054	$ 83,320	$ 4,632

At June 30, 2007 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, 2007

NOTE 7 - RECEIVABLES

Receivables at year-end of 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	$ 60,621	$ -	$ 2,713	$ -	$ 63,334
Interest	14,673	394	2,528	3,531	21,126
Taxes	40,766	37,042	-	-	77,808
Due from other governments	252,411	-	20	-	252,431
Notes	-	-	-	-	-
Total receivables	$ 368,471	$ 37,436	$ 5,261	$ 3,531	$ 414,699

Receivables Governmental Activities:	Major Governmental Funds	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	$ 63,334	$ 9,316	$ 2,470	$ 75,120
Interest	21,126	4,495	2,114	27,735
Taxes	77,808	10,107	-	87,915
Due from other governments	252,431	13,016	122	265,569
Notes	-	24,983	-	24,983
Total receivables	$ 414,699	$ 61,917	$ 4,706	$ 481,322

Receivables Business-type Activities:	Regional Medical Center	Waste Management	Nonmajor Funds	Total Business-type Activities
Accounts	$ 954,022	$ 5,015	$ 2,585	$ 961,622
Interest	477	1,362	88	1,927
Taxes	-	-	9	9
Due from other governments	12,564	256	3,584	16,404
Gross receivables	967,063	6,633	6,266	979,962
Less: Allowance for contractuals	(546,862)	-	-	(546,862)
Allowance for uncollectibles	(349,939)	(4)	-	(349,943)
Total receivables	$ 70,262	$ 6,629	$ 6,266	$ 83,157

Of the total governmental receivable of $481.3 million, $38.6 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, 2007, the components of deferred/unearned revenue were as follows (in thousands):

Governmental activities:	Unavailable	Unearned
General fund:		
Due from other governments, current portion	$ 56,381	
Resources received that do not yet meet the criteria for revenue recognition		$ 99,774
Public Facilities Improvement Capital Projects:		
Resources received that do not yet meet the criteria for revenue recognition		250
Nonmajor funds:		
Due from other governments	4,324	
Resources received that do not yet meet the criteria for revenue recognition		18,922
Total governmental	$ 60,705	$ 118,946

NOTE 8 – INTERFUND TRANSACTIONS

Interfund Receivables/ Payables

The composition of interfund balances as of June 30, 2007 is as follows (in thousands):

***Due to/from other funds*:**

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Teeter Debt Service Fund	$ 4,877	Deliquent Property Taxes
	Regional Medical Center	532	Medical Service
	Nonmajor Governmental Funds	8	Air Quality Management
		5,417	
Internal Service Funds	General Fund	97	
	Regional Medical Center	33	
	Internal Service Funds	54	
		184	Healthcare Services
Nonmajor Governmental Funds	General Fund	191	Capital Project
	Redevelopment Capital Projects	403	Transportation
	Nonmajor Government Funds	1,182	Interfund Activities
		1,776	
	Total	$ 7,377	

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.

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Nonmajor Governmental Fund	$ 37	(1)
Internal Service Fund	Internal Service Fund	200	(2)
	Total	$ 237	

(1) The amount payable to the General Fund relates to advances to Special Revenue Community Services Fund for HUD loans to Valley Restart Shelter. Repayment is expected in February 2008.

(2) Fleet Services Internal Service Fund advanced Central Mail Internal Service fund $500,000 in Fiscal Year 2005 or the contruction of a facility. As of June 30, 2007, $200,000 remains outstanding. Repayment is expected in Fiscal Year 2010.

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):

NOTE 8 – INTERFUND TRANSACTIONS (Continued)

Transfers-Continued

(a) Between Governmental and Business-type Activities:

Transfer out	Transfer in	Amount	Purpose
Operating or debt subsidy:			
General Fund	Regional Medical Center	$ 3,600	Reimbursement
General Fund	Regional Medical Center	11,353	Operating Contribution
General Fund	Waste Management	763	Reimbursement
		15,716	
Public Facilities Improvement	Regional Medical Center	5,000	Operating Contribution
Regional Medical Center	Nonmajor Governmental Funds	3,422	Pension Obligation
Waste Management	Nonmajor Governmental Funds	240	Pension Obligation
Nonmajor Enterprise	Nonmajor Governmental Funds	162	Pension Obligation
	Total	$ 24,540	

(b) Between Funds within the Governmental Activities:[1]

Transfer out	Transfer in	Amount	Purpose
Operating or debt subsidy:			
General Fund	Nonmajor Governmental Funds	$ 3,791	Administrative support
	Nonmajor Governmental Funds	17,059	Reimbursement
	Nonmajor Governmental Funds	22,017	Pension Obligation
	Nonmajor Governmental Funds	915	Leases
	Nonmajor Governmental Funds	685	Professional services
	Nonmajor Governmental Funds	15,999	Capital projects
	Nonmajor Governmental Funds	165	Miscellaneous
	Teeter	3,441	Debt service
	Internal Service Funds	50	Reimbursement
	Public Facilities Capital Project	66,376	Capital projects
		130,498	
Teeter	General Fund	1,353	Debt Service
Public Facilities Improvement	Nonmajor Governmental Funds	2,639	Reimbursement
	Nonmajor Governmental Funds	21,681	Capital projects
	General Fund	2,140	Capital projects
	General Fund	1,085	Leases
	General Fund	17	Professional services
	General Fund	6,000	Reimbursement
		33,562	
Redevelopment Capital Project	General Fund	144	Professional services
	General Fund	344	Reimbursement
	Public Facilities Capital Project	130	Capital projects
	Nonmajor Governmental Funds	10,141	Capital projects
	Nonmajor Governmental Funds	5,347	Reimbursement
		$ 16,106	

NOTE 8 – INTERFUND TRANSACTIONS (Continued)

Transfers-Continued

(b) Between Funds within the Governmental Activities (Continued):[1]

Transfer out	Transfer in	Amount	Purpose
Operating or debt subsidy:			
Nonmajor Governmental Funds	General Fund	$ 40	Overhead reimbursement
	General Fund	59,951	Fire Services
	General Fund	2,037	Administrative support
	General Fund	90	CDGB
	General Fund	1,721	Debt Service
	General Fund	4,116	Leases
	General Fund	571	Law Enforcement
	General Fund	3,555	Professional services
	General Fund	5,342	Reimbursement
	General Fund	103	Miscellaneous
	Public Facilities Capital Project	4,555	Capital Projects
	Redevelopment Capital	89	Reimbursement
	Redevelopment Capital	16,598	Capital Projects
	Nonmajor Governmental Funds	3,854	Debt Service
	Nonmajor Governmental Funds	1,801	Pension Obligation
	Nonmajor Governmental Funds	1,902	CDGB
	Nonmajor Governmental Funds	617	Leases
	Nonmajor Governmental Funds	947	Miscellaneous
	Nonmajor Governmental Funds	3,106	Administrative support
	Nonmajor Governmental Funds	113	Professional services
	Nonmajor Governmental Funds	12,848	Reimbursement
	Nonmajor Governmental Funds	1,709	Capital projects
	Internal Service	724	Reimbursement
		126,389	
Internal Service Funds	General Fund	840	Business services
	Internal Service Funds	2,342	Reimbursement
	Nonmajor Governmental Funds	1,246	Pension Obligation
		4,428	
	Total	$ 312,336	

1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Balance July 1, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Governmental activities:					
Capital assets, not being depreciated:					
Land & easements	$ 320,426	$ 15,377	$ (57)	$ (2,649)	$ 333,097
Construction in progress	195,814	145,080	(2,343)	(10,570)	327,981
Total capital assets, not being depreciated	516,240	160,457	(2,400)	(13,219)	661,078
Capital assets, being depreciated:					
Infrastructure					
Flood channels	245,582	5,907	-	(30,803)	220,686
Flood storm drains	189,033	28,537	-	30,595	248,165
Flood dams and basins	30,404	-	-	207	30,611
Roads	1,190,067	81,988	-	(592)	1,271,463
Traffic signals	18,583	255	-	(531)	18,307
Bridges	99,983	-	-	(21,523)	78,460
Runways	6,793	-	-	4,144	10,937
Parks trails and improvements	2,923	406	(645)	-	2,684
Land improvements	11	-	-	99	110
Structures and improvements	644,705	804	(95,613)	90,948	640,844
Equipment	315,364	37,729	(16,506)	589	337,176
Total capital assets, being depreciated	2,743,448	155,626	(112,764)	73,133	2,859,443
Less accumulated depreciation for:					
Infrastructure	(788,912)	(50,405)	72	1,587	(837,658)
Land improvements	(11)	-	-	-	(11)
Structures and improvements	(178,785)	(9,421)	17,537	(66,976)	(237,645)
Equipment	(231,320)	(27,149)	15,988	(1,548)	(244,029)
Total accumulated depreciation	(1,199,028)	(86,975)	33,597	(66,937)	(1,319,343)
Total capital assets, being depreciated, net	1,544,420	68,651	(79,167)	6,196	1,540,100
Governmental activities capital assets, net	$ 2,060,660	$ 229,108	$ (81,567)	$ (7,023)	$ 2,201,178

NOTE 9 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Balance July 1, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Business-type activities:					
Capital assets, not being depreciated:					
Land & easements	$ 21,095	$ 324	$ -	$ -	$ 21,419
Construction in progress	17,601	16,399	(951)	(4,899)	28,150
Total capital assets, not being depreciated	38,696	16,723	(951)	(4,899)	49,569
Capital assets, being depreciated:					
Land improvements	11,662	-	-	-	11,662
Infrastructure-landfill liners	34,914	-	-	-	34,914
Infrastructure-other	7,296	639	(299)	2,200	9,836
Structures and improvements	211,818	538		267	212,623
Equipment	103,720	4,855	(2,111)	2,432	108,896
Total capital assets, being depreciated	369,410	6,032	(2,410)	4,899	377,931
Less accumulated depreciation for:					
Land improvements	(4,509)	(582)		-	(5,091)
Infrastructure-landfill liners	(9,730)	(1,411)	-	-	(11,141)
Infrastructure-other	(2,343)	(377)	299	-	(2,421)
Structures and improvements	(55,896)	(6,259)	-	-	(62,155)
Equipment	(86,154)	(5,554)	2,111	-	(89,597)
Total accumulated depreciation	(158,632)	(14,183)	2,410	-	(170,405)
Total capital assets, being depreciated, net	210,778	(8,151)	-	4,899	207,526
Business-type activities capital assets, net	$ 249,474	$ 8,572	$ (951)	$ -	$ 257,095

Depreciation

Depreciation expense was charged to governmental functions as follows (in thousands):

General government	$ 8,588
Public protection	13,634
Health and sanitation	600
Public assistance	1,486
Public ways and facilities	46,536
Recreation and culture	725
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	15,406
Total depreciation expense – governmental functions	$ 86,975

NOTE 9 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to the business-type functions as follows (in thousands):

Regional Medical Center	$ 8,110
Waste Management	4,229
Housing Authority	1,818
County Service Areas	6
Flood Control	20
Total depreciation expense – business-type functions	$ 14,183

Capital Leases

	Governmental	Business Type
Structures and Improvements	$ 1,386	$ -
Equipment	184,022	12,049
Less: Accumulated amortization	(135,036)	(5,558)
Total leased property, net	$ 50,372	$ 6,491

Discretely Presented Component Unit

Activity for the Riverside County Children and Families Commission for the year ended June 30, 2007, was as follows (in thousands):

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Capital assets, being depreciated:				
Equipment	$ 312	$ 9	$ -	$ 321
Total capital assets, being depreciated	312	9	-	321
Less accumulated depreciation for:				
Equipment	(170)	(53)	-	(223)
Total accumulated depreciation	(170)	(53)	-	(223)
Total capital assets, net	$ 142	$ (44)	$ -	$ 98

NOTE 10 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

Waste Management (Waste) has recorded $82.7 million as landfill closure and post-closure care expense to date (based on the use of the estimated capacities of the landfills ranging from 30% 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 $35.3 million as the remaining estimated capacity of 20.3 million tons is filled. Waste expects all currently permitted landfill capacities to be filled by 2032. The total estimate of $118 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, 2007 %	Estimated Years Remaining
Anza (Anza)	$ 2,756	100.0	-
Badlands (Moreno Valley)	12,990	45.3	9
Blythe (Blythe)	1,896	30.2	25
Coachella (Coachella)	8,617	100.0	-
Desert Center (Desert Center)	721	69.0	4
Double Butte (Winchester)	9,921	100.0	-
Edom Hill (Cathedral City)	18,955	100.0	-
Highgrove (Riverside)	6,576	100.0	-
Lamb Canyon (Beaumont)	6,590	32.2	16
Mead Valley (Perris)	8,553	100.0	-
Mecca II (Mecca)	2,798	99.4	-
Oasis (Oasis)	2,336	70.0	24
	$ 82,709		

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 $63.4 million are held for these purposes at June 30, 2007 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, 2007 (in thousands):

Year Ending June 30, 2007	
2008	$ 24,265
2009	31,138
2010	15,547
2011	11,706
2012	19,537
2013-2017	31,920
2018-2022	1,006
Total Minimum Payments	$ 135,119

Rental expense was $43.5 million principally in the General Fund for the year ended June 30, 2007.

NOTE 12 – SHORT TERM DEBT

Tax and Revenue Anticipation Notes (TRANs)

On July 1, 2006, the County issued $235 million of tax exempt Tax and Revenue Anticipation Notes (TRANs), which were repaid June 30, 2007. The Notes yielded an interest rate of 3.56%. 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.

Tax-Exempt Commercial Paper Notes (Teeter)

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 2006-07, the County retired $39.9 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 $51.8 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.

Short-term debt activity for the year ended June 30, 2007, was as follows (in thousands):

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
FY 2006-07 TRANs	$ -	$ 235,000	$ (235,000)	$ -
Teeter Notes	58,394	67,728	(39,900)	86,222
Total	$ 58,394	$ 302,728	$ (274,900)	$ 86,222

NOTE 13 – LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of capital lease obligations, bonds, 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, 2007 (in thousands):

Year Ending June 30, 2007	Governmental Activities	Business-type Activities
2008	$ 24,328	$ 4,603
2009	19,821	4,260
2010	15,368	3,958
2011	11,438	3,409
2012	7,717	2,253
2013-2017	18,585	1,311
2018-2022	4,182	-
2023-2027	3,237	-
2028-2032	122	-
Total minimum payments	104,798	19,794
Less amount representing interest	(17,461)	(1,950)
Present value of net minimum lease payments	$ 87,337	$ 17,844

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.

The following schedules provide details of all certificates of participation, bonds payable, and notes payable for the County of Riverside that are outstanding as of June 30, 2007 (in thousands):

Governmental Activities

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
Certificates of Participation:					
CORAL					
1985 Certificate:	12/01/06 –12/01/15	Variable	$5,400 -$15,000	$ 169,400	$ 89,300
Serial Certificates				169,400	89,300

COUNTY OF RIVERSIDE
Notes to the Basic Financial Statements (Continued)
June 30, 2007

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
Certificates of Participation (Continued):					
CORAL					
2005 A - Capital Improvement & Family Law Court Refunding					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	$325 - $1,740	$ 28,495	$ 27,895
Term Certificates	11/01/26 – 11/01/33	5.00%	$2,255 - $1,955	9,905	9,905
Term Certificates	11/01/34 – 11/01/36	5.00%	$2,040 - $2,490	13,265	13,265
2005-A Family Law				51,665	51,065
CORAL					
2005 B - Historic Courthouse Refunding project					
Serial Certificates	11/01/06 – 11/01/25	3.0% - 5.00%	$325 - $1,740	18,835	18,125
Term Certificates	11/01/26 – 11/01/27	5.00%	$1,860 - $1,915	3,775	3,775
2005-B Historic Courthouse				22,610	21,900
CORAL					
1997 Lease Refunding:					
Serial Certificate	11/01/06 – 11/01/12	4.50% - 5.50%	$1,375 - $1,830	43,560	9,780
Term Certificate	11/01/13 – 11/01/17	5.125%	$1,310 - $1,595	7,250	7,250
Term Certificate	11/01/18 – 11/01/21	5.125%	$1,680 - $1,955	7,260	7,260
1997 Lease Refunding				58,070	24,290
CORAL					
1998 Larson Justice Center:					
Serial Certificate	12/01/06 – 12/01/12	4.30% - 4.75%	$1,195 - $1,550	18,185	8,325
Term Certificate	12/01/13 – 12/01/18	5.00%	$1,625 - $2,075	11,055	11,055
Term Certificate	12/01/19 – 12/01/21	5.00%	$2,175 - $2,400	6,860	6,860
1998 Larson Justice Center				36,100	26,240
CORAL					
2001 CAC Annex:					
Serial Certificate	11/01/06 – 11/01/26	5.00% - 5.13%	$705 - $1,880	27,120	24,495
Term Certificate	11/01/27 – 11/01/30	5.13%	$1,980 - $2,295	8,540	8,540
Term Certificate	11/1/31	5.75%	$2,415	2,415	2,415
2001 CAC Annex				38,075	35,450
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

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
Certificates of Participation (Continued):					
CORAL					
2003 A -Historic Court Project					
Serial Certificate	11/01/06 – 11/01/18	3.00% - 5.00%	$260 - $400	$ 4,125	$ 3,865
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	12,930
CORAL					
2003 B –Capital Facilities Refunding					
Serial Certificate	11/01/06 – 11/01/11	2.00% - 4.20%	$300 - $900	8,685	6,240
2003B- Capital Facilities				8,685	6,240
CORAL					
1990 Monterey Ave (Desert)					
Serial Certificate	11/01/06 – 11/01/20	Variable	$200 - $800	8,800	6,800
Monterey Ave (Desert Fac)				8,800	6,800
Court Financing Corporation					
Bankruptcy Courthouse Acquisition Project	11/01/05– 11/01/27	7.50%	$230 - $1,420	16,120	13,450
Term Certificate				16,120	13,450
District Court Financing					
U.S. District Court Project					
(Net of capital appreciation of $5,035)	12/15/15 – 06/15/20	7.59%	$640 - $844	2,165	2,165
Term /Series 1999	6/15/15	1.93%	Variable	17,635	10,621
Term /Series 2002	6/15/20	3.00%	Variable	925	740
Term certificate				20,725	13,526
Total Certificates of Participation				**$ 478,115**	**$ 335,866**
Bonds Payable:					
CORAL					
2000 Southwest Justice Center:					
Term Certificate	11/01/06 – 11/01/13	4.88% - 5.40%	$1,585 - $2,240	$ 17,945	$ 13,405
Term Certificate	11/01/14 – 11/01/32	5.20%	$2,400 - $6,200	76,300	76,300
Southwest Justice Center				94,245	89,705
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

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
RDA					
2006 Tax Alloc/Lse Revenue	10/01/06 – 10/01/37	4.50% - 5.00%	$1,995 - $6,490	$ 144,075	$ 142,080
Bonds Payable				144,075	142,080
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	34,255
Bonds Payable				37,000	34,255
RDA					
2005 Tax Allocation Housing/ Refunding	10/01/05 – 10/01/33	3.00% - 4.50%	$365 - $4,120	18,245	17,520
Bonds Payable				18,245	17,520
RDA					
2007 Tax Allocation Revenue Bond (Series A)	10/01/06 – 09/1/34	3.00% - 4.50%	$1,725- $6,450	89,990	89,990
Bonds Payable				89,990	89,990
Taxable Pension Obligation					
Pension Oblig.Bonds (Series 2005-A) PERS contract	8/15/05 – 8/15/35	4.91%	$3,155 - $5,530	400,000	392,890
Bonds Payable				400,000	392,890
Total Bonds Payable				**$ 823,513**	**$ 806,398**
Loans Payable:					
RDA					
1998 Loans Payable	10/01/05 – 10/01/33	3.50% - 7.00%	$695 - $11,135	$ 68,296	$ -
2000 Loans Payable	01/01/05 – 01/01/15	3.50% - 7.00%	$56 - $956	1,329	1,646
2004 Loans Payable (TAB)	10/01/05 – 01/01/37	2.50% - 5.00%	$2,705 - $40,300	102,785	98,980
2007 Loans- Series A (Tab)	10/01/07 – 01/01/37	3.50% - 4.37%	$3,380 - $8,925	169,720	169,720
2007 Loans- Series B (Tab)	10/01/07 – 01/01/37	4.00% - 4.75%	$645 - $1,955	33,820	33,820
CORAL					
2007 Monroe Prk Bldg.	12/5/2015	6.50%	$122 - $4,621	5,973	5,973
Total Loans Payable				**381,923**	**310,139**
Total Governmental Activities				**$ 1,683,551**	**$ 1,452,403**

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, 2007
Bonds Payable:					
Regional Medical Center					
1993 A & B (Hospital):					
Term Bonds (Series A)	06/01/07 – 06/01/12	5.90% - 6.50%	$6,420 - $13,870	$ 134,535	$ 39,125
Term Bonds (Series B)	06/01/13 – 06/01/14	5.41%	$7,050 - $7,475	14,525	14,525
Bond Discount				-	-
Loss on Defeasance (net)				-	(2,254)
1993 A & B – bonds				149,060	51,396
Regional Medical Center					
1997 A (Hospital): Serial Capital Cap Apprec. Bonds (net of future cap apprec $104,487)	06/01/13 – 06/01/26	5.70% - 6.01%	$1,081 - $4,981	41,170	41,170
1997A RCRMC bonds				41,170	41,170
Regional Med Center 1997					
Serial Bonds (Series B)	06/01/04 – 06/01/19	4.10% - 5.50%	$315 - $455	4,785	2,435
Term Bonds (Series B)	06/01/04 – 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				-	(18)
Loss on Defeasance (net)				-	(2,212)
1997 B & C (Hospital)				70,252	65,672
Regional Medical Center					
2003 A & B (Hospital):					
Term Bonds (Series A)	06/01/04 – 06/01/09	2.50% - 5.00%	$ 6,150 -$11,030	56,140	17,590
Term Bonds (Series B)	06/01/04 – 06/01/07	3.35%	$4,040	4,040	4,040
Bond Premium				-	446
Loss on Defeasance (net)				-	(12)
2003 A & B – bonds				60,180	22,064
Housing Authority					
1998 Series A:					
Term Bonds	12/01/05-12/01/07	6.25%	$60 - $90	780	180
Term Bonds	12/01/08-12/01/18	6.85%	$100 - $200	1,625	1,545
Deferred Charges				-	(764)
Term Bonds				2,405	961
Total Bonds Payable				**323,067**	**181,263**
Total Business-type Activities				**$ 323,067**	**$ 181,263**

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2007, annual debt service requirements of governmental activities to maturity are as follows (in thousands):

Governmental	Loans Payable		Certificates of Participation	
Year ending June 30, 2007:	Principal	Interest	Principal	Interest
2008	$ 5,330	$ 9,257	$ 14,057	$ 22,613
2009	4,759	14,106	15,900	21,442
2010	4,948	13,910	17,122	20,145
2011	5,320	13,728	17,849	18,716
2012	11,619	13,530	19,382	16,950
2013-2017	35,975	63,806	103,509	57,761
2018-2022	39,064	56,087	55,907	30,875
2023-2027	48,720	46,104	35,405	19,049
2028-2032	65,560	34,056	33,210	10,029
2033-2037	77,965	18,349	21,445	3,176
2038-2042	10,879	849	2,080	48
Total	$ 310,139	$ 283,782	$ 335,866	$ 220,804

Governmental	Bonds Payable		Other Long-term Liabilities	
Year ending June 30, 2007:	Principal	Interest	Principal	Interest
2008	$ 12,025	$ 37,658	$ -	$ -
2009	13,395	37,572	-	-
2010	14,750	37,051	-	-
2011	17,990	44,005	-	-
2012	32,445	33,852	-	-
2013-2017	130,930	165,191	1,500	-
2018-2022	188,823	130,949	-	-
2023-2027	180,875	80,289	-	-
2028-2032	124,280	44,788	-	-
2033-2037	79,950	11,735	-	-
2038-2042	10,935	162	-	-
Total	$ 806,398	$ 623,252	$ 1,500	$ -

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

As of June 30, 2007, annual debt service requirements of business-type activities to maturity are as follows (in thousands):

Business-type	Bonds Payable		Other Long-term Liabilites	
Year ending June 30, 2007:	Principal	Interest	Principal	Interest
2008	$ 11,060	$ 12,397	$ -	$ -
2009	11,515	12,222	-	-
2010	12,735	11,982	-	-
2011	13,555	11,469	-	-
2012	14,430	10,921	-	-
2013-2017	64,004	46,307	6,795	-
2018-2022	43,676	31,844	-	-
2023-2027	15,102	10,264	-	-
Total Requirements	186,077	147,406	$ 6,795	$ -
Bond Premium, net	446	-		
Bond Discount	(18)	-		
Deferred Chrgs (Housing)	(764)	-		
Loss on Defeasance (net)	(4,478)	-		
Total	$ 181,263	$ 147,406		

Accreted Interest Payable

The following is a summary of the changes in accreted interest payable for the year ended June 30, 2007 (in thousands):

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Governmental Activities:				
Certificates of Participation:				
Court Financing (US District Court Project)	$ 1,495	$ 285	$ -	$ 1,780
Total governmental-type activities	$ 1,495	$ 285	$ -	$ 1,780
Business-type Activities:				
Lease Revenue Bonds:				
Regional Medical Center (1997A Hosp)	$ 30,031	$ 4,291	$ -	$ 34,322
Total business-type activities	$ 30,031	$ 4,291	$ -	$ 34,322

The accreted interest payable balances at June 30, 2007 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 $285 thousand and $4.2 million, respectively, represent current year's accretion. Accumulated accretion is $34.3 million at June 30, 2007. The U.S. District Court Financing accounts for the remainder of $1.8 million. The un-accreted balances at June 30, 2007 are $96.1 million for the 1997-A Hospital (RCRMC) project and $5 million for the U.S. District Court.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Bonds, Certificates of Participation/ Refunding

During fiscal year ended June 30, 2007, CORAL issued $4 million in Capital Anticipation Notes (2006 CANS) to provide funding for the construction of Woodcrest Library. CORAL also assumed a $5.9 million loan associated with the purchase of the Monroe Park Building in Indio.

The mortgage loan assumed by CORAL carries 6.6% interest and early payment penalties apply. Interest escalates to the prime rate plus 1 basis point after December 2012. However, prepayment without any penalty is allowed after December 2010. It is CORAL's intention to pay off the note in December 2010.

During the fiscal year ended June 30, 2007, the Redevelopment Agency (RDA) issued $89.9 million of Tax Allocation Refunding Bonds as a result of current low interest rates to save money on debt service, to refund the 2001 Tax Allocation Bonds of RDA and to provide funds for the various debt obligations of the RDA within the various project areas. The Bonds are special obligations of RDA and are payable exclusively from tax revenues to be derived from the various project areas and from amounts on deposit in certain funds and accounts established pursuant to the indenture. The Bonds were used to (i) refund all of RDA's $90.0 million 2001 Tax Allocation Bonds, (ii) fund projects of benefit to RDA's Jurupa Valley Redevelopment Project Area; (iii) purchase a reserve policy; and (iv) pay the costs of issuing the bonds. The reserve requirement is covered by a bond insurance policy.

The RDA entered into loan agreements with the Riverside County Public Financing Authority for $203.5 million, which refunded and defeased approximately $11.4 million of the 1998 loans payable. The purpose intended was for financing projects in RDA's five redevelopment project areas.

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 October 2006, the Riverside County Public Financing Authority issued $169.7 million in Tax Allocation Refunding Bonds to provide proceeds (a portion of the 2007 Loans Payable) to RDA that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the remaining portion of the 1997 Loans Payable for $11.4 million. As a result, the refunding portion of the 1997 Loans Payable is considered to be defeased and the liability has been removed from the government activities column of the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments over the next 26 years by $3.7 million and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $692.5 thousand.

In April 2007, RDA issued $89.9 million in Tax Allocation Refunding Bonds to provide proceeds that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Tax Allocation Bond for $87.9 million. As a result, the refunding portion of the 2001 Tax Allocation Bond is considered to be defeased and the liability has been removed from the government activities column of the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments over the next 28 years by $22.6 million and resulted in an economic gain of $2.6 million.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Defeasance of Debt (Continued)

In April 2005, CORAL issued $51.6 million of Certificates of Participation, 2005 Series A (Capital Improvement and Family Law Court Refunding). Eleven million dollars 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. 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, 2007, was $10.7 million.

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. 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, 2007, was $21.2 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 $62.0 million is outstanding as of June 30, 2007. 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 $165.7 million at June 30, 2007, 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.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Special Assessment Bonds (Continued)

The Riverside County Flood Control and Water Conservation District (Flood Control) has issued special assessment bonds, totaling $4.7 million as of June 30, 2007, 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.

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 (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 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 Bonds variable-rate coupons have historically been similar to the Bond Market Association Municipal Swap Index (BMA).

Fair Value*:* The swap had a negative fair value of $ 13.3 million as of June 30, 2007. The fair value is the market price quoted by Citigroup on June, 30 2007.

Credit Risks: The swap counterparty was rated Aa1 by Moody's and AA- by Standard & Poor's as of June 30, 2007. 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.

Basis Risks: As of June 30, 2007, the County's rate was 64% of LIBOR, or 3.4048%, and BMA was 3.63%. The synthetic rate on the bonds at June 30, 2007 was 1.7952%.

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Interest Rate Swap (Continued)

Swap Payment and Associated Debt: Using rates as of June 30, 2007, 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, (in thousands):

Fiscal Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total Interest
2008	$ -	$ 2,598	$ 1,370	$ 3,968
2009	-	2,598	1,370	3,968
2010	-	2,598	1,370	3,968
2011	-	2,598	1,370	3,968
2012	-	2,598	1,370	3,968
2013 - 2017	4,900	12,485	6,583	19,068
2018 - 2022	14,700	10,180	5,368	15,548
2023 - 2028	19,400	7,041	3,712	10,753
2029 - 2033	25,200	3,095	1,631	4,726
2034 - 2038	12,100	269	142	411
	$ 76,300	$ 46,060	$ 24,286	$ 70,346

As rates vary, variable-rate bond interest payments and net swap payments will vary.

Termination Risks:
The County retains 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.

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, 2007 (in thousands):

	Balance July 1, 2006	New Additions	Payments / Reclass	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Debt long-term liabilities:					
Bonds payable	$ 814,443	$ 89,990	$ (98,035)	$ 806,398	$ 12,025
Capital lease obligations	83,829	24,659	(21,151)	87,337	21,119
Certificates of participation	348,486	-	(12,620)	335,866	14,057
Loans payable	113,383	209,513	(12,757)	310,139	5,330
Total debt long-term liabilities	1,360,141	324,162	(144,563)	1,539,740	52,531
Other long-term liabilities:					
Accreted interest payable	1,495	285	-	1,780	-
Compensated absences*	122,186	3,355	(633)	124,908	71,997
Estimated claims liabilities	130,164	64,293	(59,229)	135,228	39,594
Other long-term liabilities (a)	1,500	-	-	1,500	-
Total other long-term liabilities	255,345	67,933	(59,862)	263,416	111,591
Total governmental activities – long-term liabilities	$ 1,615,486	$ 392,095	$ (204,425)	$ 1,803,156	$ 164,122

Business-type activities:	Balance July 1, 2006	Additions	Payments / Reclass	Balance June 30, 2007	Amounts Due Within One Year
Debt long-term liabilities:					
Bonds payable, net of un-amortized discount and losses**	$ 191,142	$ 5,555	$ (15,434)	$ 181,263	$ 11,060
Capital lease (RCRMC)	14,993	6,122	(3,271)	17,844	3,929
Total debt long-term liabilities	206,135	11,677	(18,705)	199,107	14,989
Other long-term liabilities:					
Accreted interest payable	30,031	4,291	-	34,322	-
Accrued closure and post-closure	50,684	3,810	(4,594)	49,900	4,262
Compensated absences*	15,527	1,525	(189)	16,863	9,671
Accrued remediation costs	16,870	2,879	-	19,749	1,218
Other long-term liabilities (b)	6,795	-	-	6,795	-
Total other long-term liabilities	119,907	12,505	(4,783)	127,629	15,151
Total business-type activities – long-term liabilities	$ 326,042	$ 24,182	$ (23,488)	$ 326,736	$ 30,140

* Obligations for compensated absences have been paid from the fund associated with the obligation.

** The reduction in bonds payable amount of $15.4 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 2006-07.

(a) Fleet & Purchasing (ISF fund) has $1.5 million in "Other Long-term liabilities" (Govt-type) for a Note Payable authorized by the Board.

(b) The Housing Authority (Business-type Activity) has two notes payable, totaling $6.8 million, under "Other Long-term liabilities."

NOTE 14 – FUND BALANCES

Fund balances that are not available for appropriation or are not considered "expendable available financial resources" are reserved. Unreserved fund balances that have been earmarked by the Board for a specified purpose are considered designated. Such reserved and designated fund balances at June 30, 2007 are as follows (in thousands):

	Major Funds			Total
Reserved:	**General Fund**	**Public Facilties Improvements**	**Redevelopment Capital Projects**	**Major Governmental Funds**
Encumbrances	$ 16,259	$ 606	$ 55,208	$ 72,073
Imprest cash	377	1	-	378
Inventories	1,540	-	1,954	3,494
Notes receivable	-	-	-	-
Advances	37	-	-	37
Program operations	69,376	5,214	-	74,590
Construction	-	250,517	177,936	428,453
Receivables	-	-	-	-
General	350	-	-	350
Debt service	294	-	-	294
Land held for resale	-	-	34,165	34,165
Prepaids	-	-	-	-
Total reserved fund balances	88,233	256,338	269,263	613,834
Unreserved:				
Unreserved, designated:				
Strategic planning	101,320	-	-	101,320
Program operations	131,885	-	118,186	250,071
Capital projects and programs	106,568	-	-	106,568
Total unreserved, designated fund balances	339,773	-	118,186	457,959
Total unreserved, undesignated fund balances	142,958	-	-	142,958
Total fund balances	$ 570,964	$ 256,338	$ 387,449	$ 1,214,751

NOTE 14 – FUND BALANCES (Continued)

	Nonmajor Funds			Total	
Reserved:	**Special Revenue Funds**	**Debt Service Funds**	**Capital Projects Funds**	**Nonmajor Governmental Funds**	**Total Governmental Funds**
Encumbrances	$ 25,994	$ -	$ 565	$ 26,559	$ 98,632
Imprest cash	151	-	-	151	529
Inventories	933	-	-	933	4,427
Notes receivable	24,983	-	-	24,983	24,983
Advances	-	-	-	-	37
Program operations	11,541	-	-	11,541	86,131
Construction	391	-	11,732	12,123	440,576
Receivables	833	-	-	833	833
General	51	32,415	16,030	48,496	48,846
Debt service	-	39,009	5,521	44,530	44,824
Land held for resale	9,539	-	-	9,539	43,704
Prepaids	-	1,884	10,994	12,878	12,878
Total reserved fund balances	74,416	73,308	44,842	192,566	806,400
Unreserved:					
Unreserved, designated:					
Strategic planning	-	-	-	-	101,320
Program operations	187,664	-	-	187,664	437,735
Capital projects and programs	-	-	9,671	9,671	116,239
Total unreserved, designated fund balances	187,664	-	9,671	197,335	655,294
Total unreserved, undesignated fund balances	148,361	-	-	148,361	291,319
Total fund balances	$ 410,441	$ 73,308	$ 54,513	$ 538,262	$ 1,753,013

Net Assets. The government-wide statement of net assets reports $569.4 million of restricted net assets for governmental activities, of which $239.5 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 (IBNR) 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 $10 million, subject to a self-insured retention (SIR) of $1 million for each occurrence. A self insured retention is a form of a deductible. The County also purchases an additional $15 million per occurrence excess of the $10 million for a total of $25 million in limits. Medical malpractice utilizes an excess policy providing coverage on claims made basis. 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 above the medical malpractice policy 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 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 $60 million with an additional $232.5 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 $100 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, 2007 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, 2007 plus revenues to be collected during fiscal year 2007-08 are expected to be sufficient to cover all fiscal year 2007-08 payments. The carrying amount of unpaid claim liabilities is $135.2 million. The liabilities are discounted at 4%.

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, 2006	June 30, 2007
Unpaid claims, beginning of year	$ 126,743	$ 130,164
Increase (decrease) in provision for insured events of prior years	(808)	(5,000)
Incurred claims for current year	51,127	64,293
Claim payments	(46,898)	(54,229)
Unpaid claims, end of year	$ 130,164	$ 135,228

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, 2005 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 $21.6 million from disproportionate Medi-Cal reimbursement under this program for the year ended June 30, 2007. 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, 2007 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.

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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, Orange, and Riverside 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, 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.

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 varieties of species.

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.

Southern California Regional Airport Authority (SCRAA) was originally founded in 1985 by the joint powers authority to begin the process of regionalizing aviation. It has been reactivated in an attempt to reduce projected future passenger loads at Los Angeles International Airport (LAX), by spreading the growth in commercial air traffic to other regional airports. The Southern California Association of Governments (SCAG) has also coordinated dispersal planning for the significant new MAP (million air passengers) that would have to be absorbed at other airports if LAX's future MAP is reduced.

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. The County odes receive annually a valuation report which summarizes assets, liabilities, and rates. 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 and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2006-07, the contribution rates were:

	County	Flood Control	Park District	Waste Management
Miscellaneous	11.879%	12.891%	14.268%	14.121%
Safety	17.989%	-	-	-

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 and Net Pension Obligation (Assets)

For fiscal year 2006-07, 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	$ 73,628	$ 1,746	$ 524	$ 1,119
Safety	$ 32,986	-	-	-

NOTE 18 – RETIREMENT PLAN (Continued)

The required contribution for fiscal year 2006-07 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, 2007 are:

	County	Flood Control	Parks District	Waste Management
Miscellaneous	30	15	16	16
Safety	30			

The County's annual pension cost and net pension obligation (asset) for CalPERS for the current year were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	$ 116,368	$ 685	$ 117,053
Interest on net pension obligation (asset)	(30,066)	-	(30,066)
Adjustment to annual required contribution	22,582	434	23,016
Annual pension cost	108,884	1,119	110,003
Contributions made	(116,368)	(685)	(117,053)
Increase(decrease) in net pension obligation (asset)	(7,484)	434	(7,050)
Net pension obligation (asset) beginning of year	(390,585)	(3,686)	(394,271)
Net pension obligation (asset) end of year	$ (398,069)	$ (3,252)	$ (401,321)

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, 2005	$ 79,036	493.70%	$ (311,162)
June 30, 2006	75,534	90.73	(304,161)
June 30, 2007	73,628	108.12	(310,138)

COUNTY OF RIVERSIDE
Notes to Basic Financial Statements (Continued)
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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, 2005	$ 36,430	335.28%	$ (85,713)
June 30, 2006	29,176	93.39	(83,784)
June 30, 2007	32,986	104.99	(85,430)

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, 2005	$ 1,192	333.00%	$ (2,779)
June 30, 2006	1,577	100.00	(2,640)
June 30, 2007	1,746	100.00	(2,501)

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, 2005	$ 2,238	100.00%	$ -
June 30, 2006	757	100.00	-
June 30, 2007	524	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, 2005	$ 848	485.90%	$ (4,120)
June 30, 2006	656	100.00	(3,686)
June 30, 2007	1,119	100.00	(3,252)

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 5.78%. The contribution level is based on the actuarial valuation report for the year beginning June 30, 2006. A separate audited GAAP-basis pension plan report is not available for this plan. As of June 30, 2007, the Fund had a cash balance of $13.5 million.

Housing Authority

The Authority contributes through the County of Riverside to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public agencies within the State of California.

All full-time, part-time, and seasonal benefited County employees are eligible to participate in the system. 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. The County makes the contribution required of County employees hired prior to January 9, 1992 on their behalf and for their account. Miscellaneous County employees hired after the above date make their own contributions for the first five years.

On May 22, 2001 the County Board of Supervisors approved and authorized action to transition employees of the Authority to become County employees retroactive to May 3, 2001. These employees became subject to the provisions of the PERS retirement plan with no carry over vesting in years of service from the prior retirement plan. On May 17, 2006, employees of the Housing Authority who were hired prior to May 31, 2001 were 100% vested in the PERS retirement plan after 5 years of uninterrupted service.

The following information summarizes plan activity for the current fiscal year:

Total Authority Gross Salaries:	$ 5,985,143
Total Authority Regular Salaries Subject to PERS:	4,513,153
Total Authority Contributions Required and Paid:	980,355

Before Authority employees became County employees, the Authority fully funded a defined contribution pension plan on behalf of qualified employees and for their account. During the current fiscal year, the Authority participated in the PERS 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.

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 5 years who are at least 50 years of age at retirement qualify to receive the post-retirement benefits. Approximately 1,896 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 have been 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, 2007, CalPERS-administered health plan expenditures amounted to approximately $361 thousand and County-administered health plan expenditures amounted to approximately $1 million, respectively. Effective with FY2007-08, the Board of Supervisors has authorized establishment of a trust fund through CalPERS, which will be initially funded with $10 million.

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, 2007. Based on the combination of plans and contribution levels that the County offers, the present value of future benefits, assuming a 7.24% interest rate, was estimated to be $58.8 million, while the annual normal cost is $1.6 million. If the accrued actuarial liability of $48.6 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would be $4.4 million.

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, 2006, 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 2006-07 Single Audit of federal awards report is expected to be submitted to the Federal Audit Clearinghouse on or before March 30, 2008.

Commitments

At June 30, 2007, 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. $46.1 million will be payable upon future performance under the contracts.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

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 $19.7 million. These additional costs will be capitalized as the costs are incurred.

Remediation Contingencies

Waste is presently aware of groundwater contamination at nine of its landfills, six 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 $19.7 million. At June 30, 2007, Waste has accrued $19.7 million for the estimated costs related to the remediation of these landfills. Remediation expense for fiscal year 2007 results from 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 $19.7 million and $16.9 million are held for these purposes at June 30, 2007 and 2006, 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 2, 2007, the County as a participant in the California Statewide Communities Development Authority Pool issued $320 million of Tax and Revenue Anticipation Notes in the form of Series A-3 Bonds due June 30, 2008. The stated interest rate for the A-3 Bonds is set at 4.5% per annum with a yield of 3.62%.

The issuance is divided into two entities: $247 million for the Tax and Revenue Anticipation Notes and the other $73 million to pre-pay a portion of the County's CalPERS contribution for 2007-08. Between the prepayment discount of 3.66%, and earnings on cash flow the County expects to net $2.0 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 2007-08 and legally available for payment thereof. Proceeds for the Bonds will be used for fiscal year 2007-08 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

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 2007-2008, the State has directed the following ERAF tax shifts: First, a transfer of $348.9 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 $73 million to the Sales and Use Tax Compensation Fund for distribution of 50% in January and 50% in May. The total ERAF transfer for 2007-2008 is $421.9 million.

NOTE 22 – SUBSEQUENT EVENTS (Continued)

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. At the time of this report, a bill to extend the deadline to December 31, 2008, SB 145, was still pending approval at the state level.

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, Banning Court, and Hall of Justice was transferred to the State in October 2004, October 2005, April 2007, and May 2007 respectively. Twenty 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
Banning Court	April, 2007	112,373
Hall of Justice	May, 2007	684,765
Annual Payment Obligation		$ 1,608,149

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 2007-08 will be 12.05% and 18.63%, respectively. Fiscal year 2008-09 contribution rates for Miscellaneous and Safety are estimated at 11.9% and 18.4%, respectively. They will be accounted for in fiscal year 2007-08 and future budget years.

OPEB Trust Agreement

In accordance with GASB 45, on October 23, 2007, the County's Board of Supervisors approved a trust agreement and elected to pre-fund Other Post Employment Benefits (OPEB) with the California Public Employees Retirement System (CalPERS). The trust will be initially funded with $10 million in previously designated general fund balance.

Tobacco Settlement Revenues

On July 17, 2007, the County's Board of Supervisors approved the formation of the Inland Empire Tobacco Securitization Corporation (the Corporation), the Joint Powers Agreement with the County of San Bernardino creating the Inland Empire Tobacco Securitization Authority (the JPA), and authorized the execution of a purchase and sale agreement of a portion of the County's tobacco settlement revenues.

NOTE 22 – SUBSEQUENT EVENTS (Continued)

Tobacco Settlement Revenues (Continued)

Subsequently, the JPA issued $294 million in Tobacco Settlement Asset-Backed Bonds. The bond proceeds were used to make a loan to the Corporation on August 1, 2007. The Corporation, in turn used the proceeds of the loan to purchase a portion of Riverside County's tobacco settlement revenues. The County will use the proceeds to fund certain County capital projects.

CORAL 2007 Certificates of Participation

On August 9, 2007, CORAL authorized the issuance of $111.1 million in Certificate of Participation Bonds, 2007 Series A – Fixed Rate Certificates ($73.7 million), and 2007 Series B – Auction Rate Certificates ($37.4 million). Proceeds will be used to finance the acquisition, construction, and installation of an enhancement of the public safety communications system for the County of Riverside; to refund prior certificates (1997 Lease Refunding Project); to fund a reserve fund; to pay the premium for a debt service reserve surety bond to provide the balance of the reserve requirement for the certificates; and to pay for cost associated with executing and delivering the Certificates.

The interest rates on the 2007 Series A Certificates range from 3.85% to 5.00% and the maturity date is November 1, 2017. The 2007 Series B Certificates mature (subject to prior prepayment) on November 1, 2021. The interest rates on the 2007 Series B Certificates will be determined by the Auction Agent during each Auction Period given the 2007 Series B are being issued as Auction Rate Certificates.

REQUIRED SUPPLEMENTARY INFORMATION

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"Indonesian Lady"

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SCHEDULES OF FUNDING PROGRESS

The tables below show a three 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 (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, 2004	$ 1,834,161	$ 2,231,624	$ (397,463)	.822	$ 571,677	(69.5%)
June 30, 2005	2,364,565	2,471,523	(106,958)	.957	592,531	(18.1%)
June 30, 2006	2,599,592	2,741,753	(142,161)	.948	659,274	(21.6%)

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, 2004	$ 887,401	$ 1,021,085	$ (133,684)	.869	$ 161,598	(82.7%)
June 30, 2005	1,069,038	1,127,240	(58,202)	.948	168,806	(34.5%)
June 30, 2006	1,170,093	1,231,954	(61,862)	.950	189,606	(32.6%)

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, 2004	$ 62,180	$ 71,615	$ (9,435)	.868	$ 11,324	(83.3%)
June 30, 2005	69,637	77,958	(8,321)	.893	12,072	(68.9%)
June 30, 2006	75,422	84,198	(8,775)	.896	13,041	(67.3%)

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, 2004	$ 334,956	$ 426,958	$ (92,002)	.785	$ 90,667	(101.5%)
June 30, 2005	405,481	499,323	(93,842)	.812	108,618	(86.4%)
June 30, 2006	501,707	620,492	(118,785)	.855	126,050	(94.2%)

The amounts disclosed are for the entire Risk Pool fund in which Parks participates and not solely of its specific assets and liabilities. CalPERS Risk Pool valuation does not break out specific assets and liabilities.

COUNTY OF RIVERSIDE
Required Supplementary Information
June 30, 2007

SCHEDULES OF FUNDING PROGRESS (CONTINUED)

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, 2004	$ 334,956	$ 426,958	$ (92,002)	.785	$ 90,667	(101.5%)
June 30, 2005	405,481	499,323	(93,842)	.812	108,618	(86.4%)
June 30, 2006	501,707	620,492	(118,785)	.855	126,050	(94.2%)

The amounts disclosed are for the entire Risk Pool fund in which WMD participates and not solely of its specific assets and liabilities. CalPERS Risk Pool valuation does not break out specific assets and liabilities.

Riverside County – Part-time and Temporary Help

Six -Year Trend Information

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, 2001	$ 3,000	$ 4,579	$ (1,579)	.655	$ 26,258	(6.0%)
June 30, 2002	4,330	7,103	(2,773)	.610	18,956	(14.6%)
June 30, 2003	5,945	8,454	(2,509)	.703	31,360	(8.0%)
June 30, 2004	7,352	9,338	(1,986)	.787	29,670	(6.7%)
June 30, 2005	8,534	11,020	(2,486)	.774	31,360	(9.1%)
June 30, 2006	10,520	13,673	(3,153)	.769	29,124	(10.8%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Riverside County – Part-time and Temporary Help – Employer Contribution Trend Data

Six -Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$ 680	100%	$ -
2003	921	100	-
2004	813	100	-
2005	616	100	-
2006	633	100	-
2007	1,914	100	-

COMBINING AND INDIVIDUAL FUND STATEMENTS AND BUDGETARY SCHEDULES

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RICHARD PAUL
"Indonesian Dancers"

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COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Teeter Debt Service Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 250	$ 242	$ 1,330	$ 1,088
Total revenues	250	242	1,330	1,088
EXPENDITURES:				
Current:				
General government	3,683	1,000	735	(265)
Debt service:				
Interest	-	2,683	2,683	-
Total expenditures	3,683	3,683	3,418	(265)
Excess (deficiency) of revenues over (under) expenditures	(3,433)	(3,441)	(2,088)	1,353
OTHER FINANCING SOURCES (USES):				
Transfers in	3,433	3,441	3,441	-
Transfers out	-		(1,353)	(1,353)
Total other financing sources and (uses)	3,433	3,441	2,088	(1,353)
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	$ -	$ -	$ -	$ -

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Public Facilities Improvements Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 157	$ 157	$ -	$ (157)
License, permits, and franchise fees	2,628	2,628	-	(2,628)
Use of money and property:				
Interest	3,722	3,722	11,734	8,012
Aid from other governmental agencies:				
State	2	2	-	(2)
Charges for services	66,820	60,880	36,530	(24,350)
Other revenue	57,129	52,607	34,961	(17,646)
Total revenues	130,458	119,996	83,225	(36,771)
EXPENDITURES:				
Current:				
General government	106,444	137,051	82,355	(54,696)
Public ways and facilities	24,033	17,018	14	(17,004)
Total expenditures	130,477	154,069	82,369	(71,700)
Excess (deficiency) of revenues over (under) expenditures	(19)	(34,073)	856	34,929
OTHER FINANCING SOURCES (USES):				
Transfers in	-	71,061	71,061	-
Transfers out	-	(38,562)	(38,562)	-
Total other financing sources and (uses)	-	32,499	32,499	-
NET CHANGE IN FUND BALANCE	(19)	(1,574)	33,355	34,929
Fund balance, beginning of year	222,983	222,983	222,983	-
FUND BALANCE, END OF YEAR	$ 222,964	$ 221,409	$ 256,338	$ 34,929

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 4,300	$ 4,300	$ 12,976	$ 8,676
Charges for current services	32	32	2,248	2,216
Other revenue	73,529	56,842	2,492	(54,350)
Total revenues	77,861	61,174	17,716	(43,458)
EXPENDITURES:				
Current:				
General government	77,862	61,960	40,606	(21,354)
Total expenditures	77,862	61,960	40,606	(21,354)
Excess (deficiency) of revenues over (under) expenditures	(1)	(786)	(22,890)	(22,104)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	16,687	16,687	-
Transfers out	-	(16,106)	(16,106)	-
Issuance of debt	-	-	199,327	199,327
Proceeds from sale of capital assets	-	-	916	916
Total other financing sources and (uses)	-	581	200,824	200,243
NET CHANGE IN FUND BALANCE	(1)	(205)	177,934	178,139
Fund balance, beginning of year, as previously reported	208,704	208,704	208,704	-
Adjustments to beginning fund balance	-	-	811	811
Fund balance, beginning of year, as restated	208,704	208,704	209,515	811
FUND BALANCE, END OF YEAR	$ 208,703	$ 208,499	$ 387,449	$ 178,950

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NONMAJOR GOVERNMENTAL FUNDS

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“Mexican Folklorico Dancer”

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COUNTY OF RIVERSIDE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007
(Dollars in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS:				
Cash and investments	$ 390,584	$ 32,053	$ 10,931	$ 433,568
Accounts receivable	5,223	4,093	-	9,316
Interest receivable	3,634	744	117	4,495
Taxes receivable	9,965	-	142	10,107
Due from other governments	10,927	-	2,089	13,016
Inventories	933	-	-	933
Due from other funds	1,776	-	-	1,776
Prepaid items	1,884	-	10,994	12,878
Restricted cash and investments	14,100	37,603	33,550	85,253
Notes receivable	24,983	-	-	24,983
Land held for resale	9,539	-	-	9,539
Total assets	473,548	74,493	57,823	605,864
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	31,189	1,185	1,986	34,360
Salaries and benefits payable	6,274	-	174	6,448
Due to other governments	2,222	-	-	2,222
Due to other funds	340	-	850	1,190
Deposits payable	99	-	-	99
Advance from other funds	37	-	-	37
Deferred revenue	22,946	-	300	23,246
Total liabilities	63,107	1,185	3,310	67,602
Fund balances:				
Reserved	74,416	73,308	44,842	192,566
Unreserved, designated, reported in:				
Special revenue funds	187,664	-	-	187,664
Capital projects funds	-	-	9,671	9,671
Unreserved, undesignated, reported in:				
Special revenue funds	148,361	-	-	148,361
Total fund balances	410,441	73,308	54,513	538,262
Total liabilities and fund balances	$ 473,548	$ 74,493	$ 57,823	$ 605,864

COUNTY OF RIVERSIDE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2007
(Dollar in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes	$ 158,250	$ 63,203	$ -	$ 221,453
Licenses, permits and franchise fees	178	-	-	178
Fines, forfeitures and penalties	1,798	-	-	1,798
Use of money and property:				
Interest	16,920	4,988	2,993	24,901
Rents and concessions	7,842	32,524	-	40,366
Aid from other governmental agencies:				
Federal	66,079	-	-	66,079
State	38,885	-	5,355	44,240
Other	7,408	-	-	7,408
Charges for services	72,194	1,506	-	73,700
Other revenue	39,540	-	14	39,554
Total revenues	409,094	102,221	8,362	519,677
EXPENDITURES:				
Current:				
General government	45,910	27,479	3,804	77,193
Public protection	55,482	-	-	55,482
Public ways and facilities	152,536	-	-	152,536
Health and sanitation	7,454	-	-	7,454
Public assistance	41,383	-	-	41,383
Education	14,436	-	-	14,436
Recreation and culture	11,343	-	161	11,504
Debt service:				
Principal	2,890	23,673	-	26,563
Interest	204	63,225	-	63,429
Cost of issuance	-	5,565	-	5,565
Capital outlay	67	385	49,262	49,714
Total expenditures	331,705	120,327	53,227	505,259
Excess (deficiency) of revenues Over (under) expenditures	77,389	(18,106)	(44,865)	14,418
OTHER FINANCING SOURCES (USES):				
Transfers in	69,139	36,667	26,600	132,406
Transfers out	(101,165)	(19,316)	(5,908)	(126,389)
Issuance of debt	243	94,203	-	94,446
Premium on long-term debt	-	2,876	-	2,876
Issuance of refunding bonds	-	(103,396)	-	(103,396)
Total other financing sources (uses)	(31,783)	11,034	20,692	(57)
NET CHANGE IN FUND BALANCES	45,606	(7,072)	(24,173)	14,361
Fund balances, beginning of year, as previously reported	363,328	79,935	78,686	521,949
Adjustments to beginning fund balances	1,507	445	-	1,952
Fund balances, beginning of year, as restated	364,835	80,380	78,686	523,901
FUND BALANCES, END OF YEAR	$ 410,441	$ 73,308	$ 54,513	$ 538,262

SPECIAL REVENUE FUNDS

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OTIS ALEXANDER
"Jazzy J"

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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 of 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 Partnership, 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), and 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, and DNA Identification.

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COUNTY OF RIVERSIDE
Combining Balance Sheet
Special Revenue Funds
June 30, 2007
(Dollars in Thousands)

	Transportation	Flood Control	Community Services	Redevelopment Agency	County Service Areas	Regional Park and Open-Space	Air Quality Improvement	In-Home Support Services	Other Special Revenue	Total
ASSETS:										
Cash and investments	$ 90,757	$ 162,383	$ 26,696	$ 64,885	$ 15,842	$ 11,401	$ 1,107	$ 870	$ 16,643	$ 390,584
Accounts receivable	4,481	596	103	-	-	-	-	-	43	5,223
Interest receivable	860	1,747	56	515	163	125	11	6	151	3,634
Taxes receivable	123	3,564	5,019	-	624	585	-	-	50	9,965
Due from other governments	7,791	4	1,942	-	-	135	158	479	418	10,927
Inventories	933	-	-	-	-	-	-	-	-	933
Due from other funds	926	-	-	-	-	850	-	-	-	1,776
Prepaid Items	-	1,804	80	-	-	-	-	-	-	1,884
Restricted cash and investment	-	14,100	-	-	-	-	-	-	-	14,100
Notes receivable	-	-	-	24,983	-	-	-	-	-	24,983
Land held for resale	-	-	-	9,539	-	-	-	-	-	9,539
Total assets	105,871	184,198	33,896	99,922	16,629	13,096	1,276	1,355	17,305	473,548
LIABILITIES AND FUND BALANCES:										
Liabilities:										
Accounts payable	13,481	15,334	855	442	493	14	11	-	559	31,189
Salaries and benefits payable	2,582	1,068	1,798	-	61	402	-	103	260	6,274
Due to other governments	1,403	567	232	-	2	6	-	-	12	2,222
Due to other funds	-	-	-	-	332	-	8	-	-	340
Deposits payable	-	-	-	-	99	-	-	-	-	99
Advances from other funds	-	-	37	-	-	-	-	-	-	37
Deferred revenue	19,442	109	2,705	-	19	51	-	-	620	22,946
Total liabilities	36,908	17,078	5,627	442	1,006	473	19	103	1,451	63,107
Fund balances (Note 14):										
Reserved:	11,927	-	3,098	56,832	2	985	-	5	1,567	74,416
Unreserved:										
Designated	38	134,396	526	42,648	5	10,051	-	-	-	187,664
Undesignated	56,998	32,724	24,645	-	15,616	1,587	1,257	1,247	14,287	148,361
Total fund balances	68,963	167,120	28,269	99,480	15,623	12,623	1,257	1,252	15,854	410,441
Total liabilities and fund balances	$ 105,871	$ 184,198	$ 33,896	$ 99,922	$ 16,629	$ 13,096	$ 1,276	$ 1,355	$ 17,305	$ 473,548

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Transportation	Flood Control	Community Services	Redevelopment Agency	County Service Areas	Regional Park and Open-Space	Air Quality Improvement	In-Home Support Services	Other Special Revenue	Total
REVENUES:										
Taxes	$ 25,126	$ 49,233	$ 60,673	$ 15,801	$ 1,628	$ 4,877	$ -	$ -	$ 912	$ 158,250
Licenses, permits, and franchise fees	157	-	-	-	-	-	-	-	21	178
Fines, forfeitures, and penalties	742	-	623	-	-	-	-	-	433	1,798
Use of money and property:								-		
Interest	4,191	7,621	387	2,727	772	458	55	18	691	16,920
Rents and concessions	-	188	859	-	38	504	-	-	6,253	7,842
Aid from other governmental agencies:										
Federal	14,149	4,920	43,734	-	-	11	-	1,571	1,694	66,079
State	27,563	643	5,538	-	19	623	785	652	3,062	38,885
Other	7,408	-	-	-	-	-	-	-	-	7,408
Charges for services	35,589	12,646	1,581	-	8,547	4,897	-	-	8,934	72,194
Other revenue	13,848	3,476	20,208	230	178	190	1	-	1,409	39,540
Total revenues	128,773	78,727	133,603	18,758	11,182	11,560	841	2,241	23,409	409,094
EXPENDITURES:										
Current:										
General government	-	-	26,772	13,964	-	-	304	-	4,870	45,910
Public protection	2,329	48,464	201	-	8	139	-	-	4,341	55,482
Public ways and facilities	138,342	-	-	-	4,851	304	-	-	9,039	152,536
Health and sanitation	-	-	2,176	-	1,095	-	-	1,955	2,228	7,454
Public assistance	-	-	41,383	-	-	-	-	-	-	41,383
Education	-	-	14,436	-	-	-	-	-	-	14,436
Recreation and culture	-	-	-	-	745	10,598	-	-	-	11,343
Debt service:	-	-	-	-	-	-	-	-	-	
Principal	2,657	-	233	-	-	-	-	-	-	2,890
Interest	204	-	-	-	-	-	-	-	-	204
Capital outlay	-	-	-	-	-	67	-	-	-	67
Total expenditures	143,532	48,464	85,201	13,964	6,699	11,108	304	1,955	20,478	331,705
Excess (deficiency) of revenues over (under) expenditures	(14,759)	30,263	48,402	4,794	4,483	452	537	286	2,931	77,389
OTHER FINANCING SOURCES (USES):										
Transfers in	38,170	30	26,485	-	251	1,471	-	-	2,732	69,139
Transfers out	(12,134)	(1,063)	(72,915)	(5,350)	(3,272)	(338)	(282)	(539)	(5,272)	(101,165)
Issuance of debt	-	-	-	243	-	-	-	-	-	243
Total other financing sources (uses)	26,036	(1,033)	(46,430)	(5,107)	(3,021)	1,133	(282)	(539)	(2,540)	(31,783)
NET CHANGE IN FUND BALANCES	11,277	29,230	1,972	(313)	1,462	1,585	255	(253)	391	45,606
Fund balances, beginning of year, as previously reported	57,686	137,890	26,297	98,286	14,161	11,038	1,002	1,505	15,463	363,328
Adjustments to beginning fund balances	-	-	-	1,507	-	-	-	-	-	1,507
Fund balances, beginning of year, as restated	57,686	137,890	26,297	99,793	14,161	11,038	1,002	1,505	15,463	364,835
FUND BALANCES, END OF YEAR	$ 68,963	$ 167,120	$ 28,269	$ 99,480	$ 15,623	$ 12,623	$ 1,257	$ 1,252	$ 15,854	$ 410,441

COUNTY OF RIVERSIDE

Budgetary Comparison Schedule

Transportation Special Revenue Fund

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 13,561	$ 24,412	$ 25,126	$ 714
License, permits, and franchise fees	191	191	157	(34)
Fines, forfeitures, and penalties	-	-	742	742
Use of money and property:				
Interest	775	775	4,191	3,416
Aid from other governmental agencies:				
Federal	23,557	31,764	14,149	(17,615)
State	39,688	31,282	27,563	(3,719)
Other	16,619	16,948	7,408	(9,540)
Charges for current services	100,866	97,985	35,589	(62,396)
Other revenue	77,010	36,569	13,848	(22,721)
Total revenues	272,267	239,926	128,773	(111,153)
EXPENDITURES:				
Current:				
Public protection	3,144	3,262	2,329	(933)
Public ways and facilities	275,397	283,258	138,342	(144,916)
Debt service:				
Principal	-	2,657	2,657	-
Interest	-	204	204	-
Total expenditures	278,541	289,381	143,532	(145,849)
Excess (deficiency) of revenues over (under) expenditures	(6,274)	(49,455)	(14,759)	34,696
OTHER FINANCING SOURCES (USES):				
Transfers in	-	38,170	38,170	-
Transfers out	-	(12,134)	(12,134)	-
Total other financing sources and (uses)	-	26,036	26,036	-
NET CHANGE IN FUND BALANCE	(6,274)	(23,419)	11,277	34,696
Fund balance, beginning of year	57,686	57,686	57,686	-
FUND BALANCE, END OF YEAR	$ 51,412	$ 34,267	$ 68,963	$ 34,696

COUNTY OF RIVERSIDE

Budgetary Comparison Schedule

Flood Control Special Revenue Fund

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 34,045	$ 34,545	$ 49,233	$ 14,688
Use of money and property:				
Interest	2,838	2,838	7,621	4,783
Rents and concessions	72	72	188	116
Aid from other governmental agencies:				
Federal	-	-	4,920	4,920
State	590	590	643	53
Charges for services	13,343	13,343	12,646	(697)
Other revenue	6,160	6,130	3,476	(2,654)
Total revenues	57,048	57,518	78,727	21,209
EXPENDITURES:				
Current:				
Public protection	95,798	95,235	48,464	(46,771)
Total expenditures	95,798	95,235	48,464	(46,771)
Excess (deficiency) of revenues over (under) expenditures	(38,750)	(37,717)	30,263	67,980
OTHER FINANCING SOURCES (USES):				
Transfers in	-	30	30	-
Transfers out	-	(1,063)	(1,063)	-
Total other financing sources (uses)	-	(1,033)	(1,033)	-
NET CHANGE IN FUND BALANCE	(38,750)	(38,750)	29,230	67,980
Fund balance, beginning of year	137,890	137,890	137,890	-
FUND BALANCE, END OF YEAR	$ 99,140	$ 99,140	$ 167,120	$ 67,980

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Community Services Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 58,780	$ 59,913	$ 60,673	$ 760
Fines, forfeitures, and penalties	440	520	623	103
Use of money and property:				
Interest	53	53	387	334
Rents and concessions	763	763	859	96
Aid from other governmental agencies:				
Federal	52,366	55,226	43,734	(11,492)
State	7,005	8,155	5,538	(2,617)
Charges for current services	21,243	2,172	1,581	(591)
Other revenue	30,138	23,577	20,208	(3,369)
Total revenues	170,788	150,379	133,603	(16,776)
EXPENDITURES:				
Current:				
General government	37,205	34,877	26,772	(8,105)
Public protection	61,160	2,915	201	(2,714)
Health and sanitation	2,526	3,387	2,176	(1,211)
Public assistance	57,816	51,539	41,383	(10,156)
Education	16,646	17,129	14,436	(2,693)
Debt service:				
Principal	1,923	1,218	233	(985)
Total expenditures	177,276	111,065	85,201	(25,864)
Excess (deficiency) of revenues over (under) expenditures	(6,488)	39,314	48,402	9,088
OTHER FINANCING SOURCES (USES):				
Transfers in	-	26,485	26,485	-
Transfers out	-	(72,915)	(72,915)	-
Total other financing sources and (uses)	-	(46,430)	(46,430)	-
NET CHANGE IN FUND BALANCE	(6,488)	(7,116)	1,972	9,088
Fund balance, beginning of year	26,297	26,297	26,297	-
FUND BALANCE, END OF YEAR	$ 19,809	$ 19,181	$ 28,269	$ 9,088

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 12,987	$ 12,987	$ 15,801	$ 2,814
Use of money and property:				
Interest	2,300	2,300	2,727	427
Other revenue	2,964	30,221	230	(29,991)
Total revenues	18,251	45,508	18,758	(26,750)
EXPENDITURES:				
Current:				
General government	18,251	40,401	13,964	(26,437)
Total expenditures	18,251	40,401	13,964	(26,437)
Excess (deficiency) of revenues over (under) expenditures	-	5,107	4,794	(313)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(5,350)	(5,350)	-
Issuance of debt	-	243	243	-
Total other financing sources and (uses)	-	(5,107)	(5,107)	-
NET CHANGE IN FUND BALANCE	-	-	(313)	(313)
Fund balance, beginning of year, as previously reported	98,286	98,286	98,286	-
Adjustments to beginning fund balance	-	-	1,507	1,507
Fund balance, beginning of year, as restated	98,286	98,286	99,793	1,507
FUND BALANCE, END OF YEAR	$ 98,286	$ 98,286	$ 99,480	$ 1,194

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
County Service Areas Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 996	$ 1,015	$ 1,628	$ 613
Use of money and property:				
Interest	216	216	772	556
Rents and concessions	12	12	38	26
Aid from other governmental agencies:				
State	16	16	19	3
Charges for current services	6,618	6,800	8,547	1,747
Other revenue	28	30	178	148
Total revenues	7,886	8,089	11,182	3,093
EXPENDITURES:				
Current:				
Public protection	259	368	8	(360)
Public ways and facilities	7,213	7,330	4,851	(2,479)
Health and sanitation	800	1,095	1,095	-
Recreation and cultural services	1,482	1,118	745	(373)
Total expenditures	9,754	9,911	6,699	(3,212)
Excess (deficiency) of revenues over (under) expenditures	(1,868)	(1,822)	4,483	6,305
OTHER FINANCING SOURCES (USES):				
Transfers in	-	251	251	-
Transfers out	-	(3,272)	(3,272)	-
Total other financing sources and (uses)	-	(3,021)	(3,021)	-
NET CHANGE IN FUND BALANCE	(1,868)	(4,843)	1,462	6,305
Fund balance, beginning of year	14,161	14,161	14,161	-
FUND BALANCE, END OF YEAR	$ 12,293	$ 9,318	$ 15,623	$ 6,305

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Regional Park and Open-Space Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 3,816	$ 3,816	$ 4,877	$ 1,061
Use of money and property:				
Interest	232	236	458	222
Rents and concessions	505	505	504	(1)
Aid from other governmental agencies:				
Federal	10	10	11	1
State	478	556	623	67
Charges for current services	5,406	4,073	4,897	824
Other revenue	1,265	1,615	190	(1,425)
Total revenues	11,712	10,811	11,560	749
EXPENDITURES:				
Current:				
Public protection	9	102	139	37
Public ways and facilities	-	304	304	-
Recreation and cultural services	12,536	12,691	10,598	(2,093)
Capital outlay	-	67	67	-
Total expenditures	12,545	13,164	11,108	(2,056)
Excess (deficiency) of revenues over (under) expenditures	(833)	(2,353)	452	2,805
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1,471	1,471	-
Transfers out	-	(338)	(338)	-
Total other financing sources and (uses)	-	1,133	1,133	-
NET CHANGE IN FUND BALANCE	(833)	(1,220)	1,585	2,805
Fund balance, beginning of year	11,038	11,038	11,038	-
FUND BALANCE, END OF YEAR	$ 10,205	$ 9,818	$ 12,623	$ 2,805

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Air Quality Improvement Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 15	$ 15	$ 55	$ 40
Aid from other governmental agencies:				
State	600	600	785	185
Other revenue	-	-	1	1
Total revenues	615	615	841	226
EXPENDITURES:				
Current:				
General government	715	443	304	(139)
Total expenditures	715	443	304	(139)
Excess (deficiency) of revenues over (under) expenditures	(100)	172	537	365
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(282)	(282)	-
Total other financing sources / (uses)	-	(282)	(282)	-
NET CHANGE IN FUND BALANCE	(100)	(110)	255	365
Fund balance, beginning of year	1,002	1,002	1,002	-
FUND BALANCE, END OF YEAR	$ 902	$ 892	$ 1,257	$ 365

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
In-Home Support Services Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ -	$ -	$ 18	$ 18
Aid from other governmental agencies:				
Federal	1,183	1,458	1,571	113
State	1,125	1,410	652	(758)
Other revenue	734	911	-	(911)
Total revenues	3,042	3,779	2,241	(1,538)
EXPENDITURES:				
Current:				
Health and sanitation	3,042	3,256	1,955	(1,301)
Total expenditures	3,042	3,256	1,955	(1,301)
Excess (deficiency) of revenues over (under) expenditures	-	523	286	(237)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(539)	(539)	-
Total other financing sources / (uses)	-	(539)	(539)	-
NET CHANGE IN FUND BALANCE	-	(16)	(253)	(237)
Fund balance, beginning of year	1,505	1,505	1,505	-
FUND BALANCE, END OF YEAR	$ 1,505	$ 1,489	$ 1,252	$ (237)

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Other Special Revenue Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 720	$ 720	$ 912	$ 192
License, permits, and franchise fees	19	19	21	2
Fines, forfeitures, and penalties	-	-	433	433
Use of money and property:				
Interest	122	122	691	569
Rents and concessions	4,494	7,561	6,253	(1,308)
Aid from other governmental agencies:				
Federal	6,983	6,983	1,694	(5,289)
State	3,286	3,940	3,062	(878)
Charges for current services	11,017	10,831	8,934	(1,897)
Other revenue	1,061	627	1,409	782
Total revenues	27,702	30,803	23,409	(7,394)
EXPENDITURES:				
Current:				
General government	4,441	6,335	4,870	(1,465)
Public protection	5,493	5,279	4,341	(938)
Public ways and facilities	15,576	16,138	9,039	(7,099)
Health and sanitation	2,783	3,393	2,228	(1,165)
Total expenditures	28,293	31,145	20,478	(10,667)
Excess (deficiency) of revenues over (under) expenditures	(591)	(342)	2,931	3,273
OTHER FINANCING SOURCES (USES):				
Transfers in	-	2,732	2,732	-
Transfers out	-	(5,272)	(5,272)	-
Total other financing sources and (uses)	-	(2,540)	(2,540)	-
NET CHANGE IN FUND BALANCE	(591)	(2,882)	391	3,273
Fund balance, beginning of year	15,463	15,463	15,463	-
FUND BALANCE, END OF YEAR	$ 14,872	$ 12,581	$ 15,854	$ 3,273

DEBT SERVICE FUNDS

Photographer
SUZY JACKSON
"Samoan Dancers"

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COUNTY OF RIVERSIDE

DEBT SERVICE FUNDS

These funds are used to account for the accumulation of resources and payment of long-term debt principal and interest.

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.

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.

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, 2007
(Dollars in Thousands)

	CORAL	Redevelopment Agency	District Court Financing Corporation	Bankruptcy Court	Pension Obligation	Total
ASSETS:						
Cash and investments	$ -	$ 28,190	$ 693	$ -	$ 3,170	$ 32,053
Accounts receivable	-	2,120	-	-	1,973	4,093
Interest receivable	209	271	4	22	238	744
Restricted cash and investments	31,832	-	-	5,771	-	37,603
Total assets	32,041	30,581	697	5,793	5,381	74,493
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	81	632	-	-	472	1,185
Total liabilities	81	632	-	-	472	1,185
Fund balances (Note 14):						
Reserved	31,960	29,949	697	5,793	4,909	73,308
Total fund balances	31,960	29,949	697	5,793	4,909	73,308
Total liabilities and fund balances	$ 32,041	$ 30,581	$ 697	$ 5,793	$ 5,381	$ 74,493

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Debt Service Funds
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	CORAL	Redevelopment Agency	District Court Financing Corporation	Bankruptcy Court	Pension Obligation	Total
REVENUES:						
Taxes	$ -	$ 63,203	$ -	$ -	$ -	$ 63,203
Use of money and property:						
Interest	1,780	1,715	70	272	1,151	4,988
Rents and concessions	27,947	-	2,338	2,239	-	32,524
Charges for services	-	-	-	-	1,506	1,506
Total revenues	29,727	64,918	2,408	2,511	2,657	102,221
EXPENDITURES:						
Current:						
General Government	343	18,937	670	550	6,979	27,479
Principal	12,067	5,915	992	744	3,955	23,673
Interest	18,268	24,473	812	709	18,963	63,225
Cost of issuance	-	5,565	-	-	-	5,565
Capital outlay	385	-	-	-	-	385
Total expenditures	31,063	54,890	2,474	2,003	29,897	120,327
Excess (deficiency) of revenues over (under) expenditures	(1,336)	10,028	(66)	508	(27,240)	(18,106)
OTHER FINANCING SOURCES (USES):						
Transfers in	829	6,950	-	-	28,888	36,667
Transfers out	(1,616)	(17,700)	-	-	-	(19,316)
Issuance of debt	-	94,203	-	-	-	94,203
Premium on long-term debt	-	2,876	-	-	-	2,876
Issuance of refunding bonds	-	(103,396)	-	-	-	(103,396)
Total other financing sources (uses)	(787)	(17,067)	-	-	28,888	11,034
NET CHANGE IN FUND BALANCES	(2,123)	(7,039)	(66)	508	1,648	(7,072)
Fund balances, beginning of year, as previously reported	34,083	36,543	763	5,285	3,261	79,935
Adjustments to beginning fund balances	-	445	-	-	-	445
Fund balances, beginning of year, as restated	34,083	36,988	763	5,285	3,261	80,380
FUND BALANCES, END OF YEAR	$ 31,960	$ 29,949	$ 697	$ 5,793	$ 4,909	$ 73,308

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Redevelopment Agency Debt Service Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Taxes	$ 48,505	$ 56,505	$ 63,203	$ 6,698
Use of money and property:				
Interest	1,000	1,000	1,715	715
Other revenue	17,322	23,293	-	(23,293)
Total revenues	66,827	80,798	64,918	(15,880)
EXPENDITURES:				
Current:				
General government	66,827	27,778	18,937	(8,841)
Debt service:				
Principal	-	5,915	5,915	-
Interest	-	24,473	24,473	-
Cost of issuance	-	5,565	5,565	-
Total expenditures	66,827	63,731	54,890	(8,841)
Excess (deficiency) of revenues over (under) expenditures	-	17,067	10,028	(7,039)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	6,950	6,950	-
Transfers out	-	(17,700)	(17,700)	-
Issuance of debt	-	94,203	94,203	-
Premium on long-term debt	-	2,876	2,876	-
Issuance of refunding bonds	-	(103,396)	(103,396)	-
Total other financing sources and (uses)	-	(17,067)	(17,067)	-
NET CHANGE IN FUND BALANCE	-	-	(7,039)	(7,039)
Fund balance, beginning of year, as previously reported	36,543	36,543	36,543	-
Adjustments to beginning fund balance	-	-	445	445
Fund balance, beginning of year, as restated	36,543	36,543	36,988	445
FUND BALANCE, END OF YEAR	$ 36,543	$ 36,543	$ 29,949	$ (6,594)

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Pension Obligation Bond Debt Service Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 250	$ 250	$ 1,151	$ 901
Charges for current services	28,918	30	1,506	1,476
Total revenues	29,168	280	2,657	2,377
EXPENDITURES:				
Current:				
General government	29,168	6,250	6,979	729
Debt service:				
Principal	-	3,955	3,955	-
Interest	-	18,963	18,963	-
Total expenditures	29,168	29,168	29,897	729
Excess (deficiency) of revenues over (under) expenditures	-	(28,888)	(27,240)	1,648
OTHER FINANCING SOURCES (USES):				
Transfers in	-	28,888	28,888	-
Total other financing sources and (uses)	-	28,888	28,888	-
NET CHANGE IN FUND BALANCE	-	-	1,648	1,648
Fund balance, beginning of year	3,261	3,261	3,261	-
FUND BALANCE, END OF YEAR	$ 3,261	$ 3,261	$ 4,909	$ 1,648

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CAPITAL PROJECTS FUNDS

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RICHARD PAUL
“Color Choices”

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COUNTY OF RIVERSIDE

CAPITAL PROJECTS FUNDS

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

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 ENTERPRISE SOLUTIONS FOR PROPERTY TAXATION (CREST)

The Assessor, Auditor, and Tax Collector teamed up to collectively develop a new integrated property tax management system. The project begins with a Business Process Re-engineering phase that documents the integrated roles of the three departments. This phase identifies the current system's capabilities, strengths, and weaknesses. A second phase of the project builds on this re-engineering initiative to implement a replacement Property Tax System based on new technology.

COUNTY OF RIVERSIDE
Combining Balance Sheet
Capital Projects Funds
June 30, 2007
(Dollars in Thousands)

	PSEC	CORAL	Flood Control	District Court Financing Corporation	Regional Park and Open-Space	CREST	Total
ASSETS:							
Cash and investments	$ 1,077	$ -	$ 107	$ 160	$ 9,131	$ 456	$ 10,931
Interest receivable	-	-	2	1	110	4	117
Taxes receivable	-	142	-	-	-	-	142
Due from other governments	-	-	-	-	2,089	-	2,089
Prepaid items	10,444	-	-	-	550	-	10,994
Restricted cash and investments	-	33,550	-	-	-	-	33,550
Total assets	11,521	33,692	109	161	11,880	460	57,823
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts payable	75	1,397	5	-	509	-	1,986
Salaries and benefits payable	174	-	-	-	-	-	174
Due to other funds	-	-	-	-	850	-	850
Deferred revenue	-	-	-	-	300	-	300
Total liabilities	249	1,397	5	-	1,659	-	3,310
Fund balances (Note 14):							
Reserved	11,272	32,295	104	161	550	460	44,842
Unreserved:							
Designated	-	-	-	-	9,671	-	9,671
Total fund balances	11,272	32,295	104	161	10,221	460	54,513
Total liabilities and fund balances	$ 11,521	$ 33,692	$ 109	$ 161	$ 11,880	$ 460	$ 57,823

COUNTY OF RIVERSIDE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Capital Projects Fund

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	PSEC	CORAL	Flood Control	District Court Financing Corporation	Regional Park and Open-Space	CREST	Total
REVENUES:							
Use of money and property:							
Interest	$ -	$ 2,591	$ 8	$ 8	$ 382	$ 4	$ 2,993
Aid from other governmental agencies:							
State	-	-	-	-	5,355	-	5,355
Other revenue	6	-	-	-	8	-	14
Total revenues	6	2,591	8	8	5,745	4	8,362
EXPENDITURES:							
Current:							
General government	3,804	-	-	-	-	-	3,804
Recreation and culture	-	-	-	-	161	-	161
Capital outlay	-	41,824	453	-	6,849	136	49,262
Total expenditures	3,804	41,824	453	-	7,010	136	53,227
Excess (deficiency) of revenues over (under) expenditures	(3,798)	(39,233)	(445)	8	(1,265)	(132)	(44,865)
OTHER FINANCING SOURCES (USES):							
Transfers in	15,230	1,045	308	-	9,425	592	26,600
Transfers out	(1,002)	(257)	-	-	(4,649)	-	(5,908)
Total other financing sources (uses)	14,228	788	308	-	4,776	592	20,692
NET CHANGE IN FUND BALANCES	10,430	(38,445)	(137)	8	3,511	460	(24,173)
Fund balances, beginning of year	842	70,740	241	153	6,710	-	78,686
FUND BALANCES, END OF YEAR	$ 11,272	$ 32,295	$ 104	$ 161	$ 10,221	$ 460	$ 54,513

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
PSEC Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Over (Under)
REVENUES:				
Other revenue	$ 5,900	$ 1,114	$ 6	$ (1,108)
Total revenues	5,900	1,114	6	(1,108)
EXPENDITURES:				
Current:				
General government	5,900	16,124	3,804	(12,320)
Total expenditures	5,900	16,124	3,804	(12,320)
Excess (deficiency) of revenues over(under) expenditures	-	(15,010)	(3,798)	11,212
OTHER FINANCING SOURCES (USES):				
Transfers in	-	15,230	15,230	-
Transfers out	-	(1,002)	(1,002)	-
Total other financing sources and (uses)	-	14,228	14,228	-
NET CHANGE IN FUND BALANCE	-	(782)	10,430	11,212
Fund balance, beginning of year	842	842	842	-
FUND BALANCE, END OF YEAR	$ 842	$ 60	$ 11,272	$ 11,212

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Flood Control Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 1	$ 1	$ 8	$ 7
Other revenue	1,401	1,093	-	(1,093)
Total revenues	1,402	1,094	8	(1,086)
EXPENDITURES:				
Capital outlay	1,655	1,655	453	(1,202)
Total expenditures	1,655	1,655	453	(1,202)
Excess (deficiency) of revenues over(under) expenditures	(253)	(561)	(445)	116
OTHER FINANCING SOURCES (USES):				
Transfers in	-	308	308	-
Total other financing sources and (uses)	-	308	308	-
NET CHANGE IN FUND BALANCE	(253)	(253)	(137)	116
Fund balance, beginning of year	241	241	241	-
FUND BALANCE, END OF YEAR	$ (12)	$ (12)	$ 104	$ 116

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
Regional Park and Open-Space District Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ 198	$ 198	$ 382	$ 184
Aid from other governmental agencies:				
State	8,196	8,683	5,355	(3,328)
Other revenue	7,148	4,584	8	(4,576)
Total revenues	15,542	13,465	5,745	(7,720)
EXPENDITURES:				
Current:				
Recreation and cultural services	19,993	17,311	161	(17,150)
Capital outlay	-	4,849	6,849	2,000
Total expenditures	19,993	22,160	7,010	(15,150)
Excess (deficiency) of revenues over (under) expenditures	(4,451)	(8,695)	(1,265)	7,430
OTHER FINANCING SOURCES (USES):				
Transfers in	-	9,425	9,425	-
Transfers out	-	(4,649)	(4,649)	-
Total other financing sources and (uses)	-	4,776	4,776	-
NET CHANGE IN FUND BALANCE	(4,451)	(3,919)	3,511	7,430
Fund balance, beginning of year	6,710	6,710	6,710	-
FUND BALANCE, END OF YEAR	$ 2,259	$ 2,791	$ 10,221	$ 7,430

COUNTY OF RIVERSIDE
Budgetary Comparison Schedule
CREST Capital Projects Fund
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES:				
Use of money and property:				
Interest	$ -	$ -	$ 4	$ 4
Total revenues	-	-	4	4
EXPENDITURES:				
Current:				
General government	-	592	-	(592)
Capital outlay	-	-	136	136
Total expenditures	-	592	136	(456)
Excess (deficiency) of revenues over(under) expenditures	-	(592)	(132)	460
OTHER FINANCING SOURCES (USES):				
Transfers in	-	592	592	-
Total other financing sources and (uses)	-	592	592	-
NET CHANGE IN FUND BALANCE	-	-	460	460
Fund balance, beginning of year	-	-	-	-
FUND BALANCE, END OF YEAR	$ -	$ -	$ 460	$ 460

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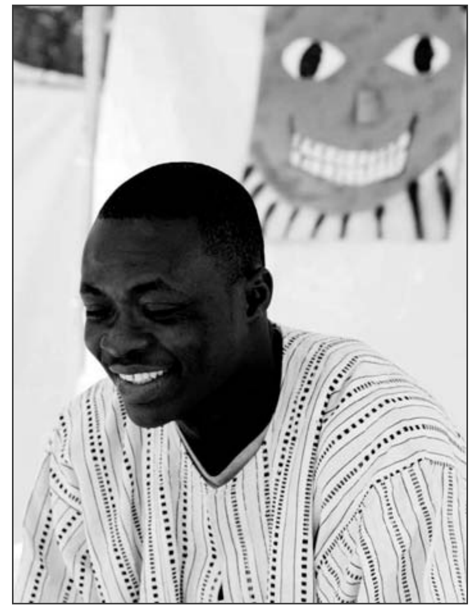
NONMAJOR ENTERPRISE FUNDS



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"African Student"

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COUNTY OF RIVERSIDE

NONMAJOR ENTERPRISE FUNDS

These funds account for operations providing goods or services to the general public. The accounting for these funds is similar to private enterprise accounting (accrual). The intent of the County's governing board is that all costs associated with providing these goods or services be financed or recovered primarily through user charges.

COUNTY SERVICE AREA WATER AND SEWER DISTRICT FUNDS
These three funds were established to account for revenues, expenses, and the allocation of net income for County Service Areas 62 and 122.

HOUSING AUTHORITY
The Housing Authority was established to provide affordable, decent, safe housing opportunities to low and moderate income families including elderly and handicapped persons, while supporting programs to foster economic self-sufficiency.

FLOOD CONTROL FUNDS
These three funds were 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, 2007
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
ASSETS:				
Current assets:				
Cash and investments	$ 346	$ 5,982	$ 665	$ 6,993
Accounts receivable-net	-	166	2,419	2,585
Interest receivable	4	-	84	88
Taxes receivable	9	-	-	9
Due from other governments	-	3,559	25	3,584
Restricted cash and investments	-	1,954	2,678	4,632
Prepaid items and deposits	-	32	-	32
Total current assets	359	11,693	5,871	17,923
Noncurrent Assets:				
Capital assets:				
Depreciable assets	44	14,123	54	14,221
Nondepreciable assets	-	5,240	-	5,240
Total Noncurrent Assets	44	19,363	54	19,461
Total assets	403	31,056	5,925	37,384
LIABILITIES:				
Current liabilities:				
Accounts payable	3	-	2,872	2,875
Salaries and benefits payable	7	-	103	110
Interest payable	-	10	-	10
Deposits payable	46	-	-	46
Other liabilities	-	2,431	451	2,882
Compensated absences	2	-	94	96
Bonds payable	-	100	-	100
Total current liabilities	58	2,541	3,520	6,119
Noncurrent Liabilities:				
Compensated absences	10	744	196	950
Bonds payable	-	861	-	861
Other long-term liabilities	-	6,795	-	6,795
Total noncurrent liabilities	10	8,400	196	8,606
Total liabilities	68	10,941	3,716	14,725
NET ASSETS:				
Invested in capital assets, net of related debt	44	12,568	54	12,666
Restricted	62	178	-	240
Unrestricted	229	7,369	2,155	9,753
Total net assets	$ 335	$ 20,115	$ 2,209	$ 22,659

COUNTY OF RIVERSIDE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
OPERATING REVENUES:				
Charges for services	$ 302	$ 2,403	$ 5,958	$ 8,663
Other	29	64,909	74	65,012
Total operating revenues	331	67,312	6,032	73,675
OPERATING EXPENSES:				
Personnel services	162	7,292	2,155	9,609
Communications	2	-	-	2
Insurance	2	-	-	2
Maintenance of building and equipment	42	1,623	4	1,669
Supplies	5	-	9	14
Purchased services	16	-	3,345	3,361
Depreciation and amortization	6	1,818	20	1,844
Rents and leases of equipment	8	-	13	21
Public assistance	-	57,739	-	57,739
Utilities	75	545	-	620
Other	9	1,012	20	1,041
Total operating expenses	327	70,029	5,566	75,922
Operating income (loss)	4	(2,717)	466	(2,247)
NONOPERATING REVENUES (EXPENSES):				
Investment income	18	408	376	802
Interest expense	(2)	(189)	-	(191)
Total nonoperating revenues (expenses)	16	219	376	611
Income (loss) before transfers	20	(2,498)	842	(1,636)
Transfers out	(1)	(161)	-	(162)
CHANGE IN NET ASSETS	19	(2,659)	842	(1,798)
Net assets, beginning of year	316	22,774	1,367	24,457
NET ASSETS, END OF YEAR	$ 335	$ 20,115	$ 2,209	$ 22,659

COUNTY OF RIVERSIDE
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ending June 30, 2007
(Dollars in Thousands)

	County Service Areas	Housing Authority	Flood Control	Total
Cash flows from operating activities				
Cash receipts from customers / other funds	$ 331	$ 63,853	$ 5,245	$ 69,429
Cash paid to suppliers for goods and services	(157)	(61,052)	(3,128)	(64,337)
Cash paid to employees for services	(161)	(7,481)	(2,149)	(9,791)
Net cash provided by (used in) operating activities	13	(4,680)	(32)	(4,699)
Cash flows from noncapital financing activities				
Transfers paid	(1)	(161)	-	(162)
Net cash provided by (used in) noncapital financing activities	(1)	(161)	-	(162)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	-	(608)	(3)	(611)
Principal paid on bonds payable	-	(21)	-	(21)
Interest paid on long-term debt	(2)	(189)	-	(191)
Net cash used in capital and related financing activities	(2)	(818)	(3)	(823)
Cash flows from investing activities				
Interest received on investments	17	408	343	768
Net cash provided by investing activities	17	408	343	768
Net increase (decrease) in cash and cash equivalents	27	(5,251)	308	(4,916)
Cash and cash equivalents, beginning of year	319	13,187	3,035	16,541
Cash and cash equivalents, end of year	$ 346	$ 7,936	$ 3,343	$ 11,625

Reconciliation of operating income to net cash provided (used) by operating activities

	County Service Areas	Housing Authority	Flood Control	Total
Operating income (loss)	$ 4	$ (2,717)	$ 466	$ (2,247)
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation and amortization	6	1,818	20	1,844
Decrease (Increase) accounts receivable	-	8	(805)	(797)
Decrease (Increase) due from other governments	-	(3,467)	18	(3,449)
Decrease (Increase) prepaid items and deposits	-	6	-	6
Increase (Decrease) accounts payable	3	-	2,554	2,557
Increase (Decrease) deposits payable	(1)	-	-	(1)
Increase (Decrease) other liabilities	-	(139)	(2,291)	(2,430)
Increase (Decrease) salaries and benefits payable	-	-	1	1
Increase (Decrease) compensated absences	1	(189)	5	(183)
Net cash provided by (used in) operating activities	$ 13	$ (4,680)	$ (32)	$ (4,699)

INTERNAL SERVICE FUNDS

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"Bag Piper"

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COUNTY OF RIVERSIDE

INTERNAL SERVICE FUNDS

These funds were established to account for the goods and services provided by a County department to other County departments, or to other governments, on a cost-reimbursement basis.

RECORDS MANAGEMENT FUNDS
This fund was established to account for the operations of the Records Management and Archives Program, which is responsible for providing consistent standards and support services that promote responsible record keeping countywide. Sources of revenue include records storage, reformatting, preservation, and consulting services.

FLEET SERVICES FUND
This fund finances the operation and maintenance of County vehicles, including the Sheriff's Department. Revenue is obtained on a cost-reimbursement basis.

INFORMATION SERVICES FUND
These funds are supported by the revenues generated for services including software systems support, computer networks, data structure design, and organization of the County's computer systems.

PRINTING SERVICES FUND
These funds account for the financing of printing and central mail services provided to County departments on a cost-reimbursement basis. This fund also provides services such as the paper reclamation program, which collects and sells County department waste paper for recycling.

SUPPLY SERVICES FUND
This fund finances the operation that provides County departments with merchandise and services on a cost-reimbursement basis.

OASIS PROJECT FUND
These funds were established to support the implementation, operation, and maintenance of the County's central administrative and financial information system. Revenue is obtained on a cost-reimbursement basis.

RISK MANAGEMENT FUNDS
These funds account for the financing of employee insurance benefits and County self-insurance programs. These funds include medical, dental, disability, and unemployment insurance as well as general liability, medical malpractice, and worker's compensation.

TEMPORARY ASSISTANCE POOL FUND (TAP)
The purpose of this fund is to provide a ready source of temporary workers to County departments, with lower overhead costs than are typically charged by outside temporary employment agencies.

FLOOD CONTROL EQUIPMENT FUNDS
These funds were 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 Net Assets
Internal Service Funds
June 30, 2007
(Dollars in Thousands)

	Records Management and Archives	Fleet Services	Information Services	Printing Services	Supply Services
ASSETS:					
Current assets:					
Cash and investments	$ 888	$ 6,380	$ 13,029	$ 2,306	$ 3,108
Accounts receivable-net	20	79	-	107	2
Interest receivable	9	-	104	-	-
Due from other government	-	27	-	95	-
Advance to other funds	-	200	-	-	-
Inventories	-	526	1,212	284	393
Due from other funds	-	-	-	-	-
Prepaid items and deposits	-	-	-	11	-
Total current assets	917	7,212	14,345	2,803	3,503
Noncurrent assets:					
Capital assets:					
Depreciable assets	64	35,648	4,651	667	334
Non depreciable assets	-	350	-	-	-
Total noncurrent assets	64	35,998	4,651	667	334
Total assets	981	43,210	18,996	3,470	3,837
LIABILITIES:					
Current liabilities:					
Accounts payable	-	3,661	534	92	211
Salaries and benefits payable	80	230	1,182	117	44
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	2
Other liabilities	-	1,859	-	-	-
Compensated absences	69	240	1,174	88	21
Capital lease obligation	-	8,508	1,121	132	-
Estimated claims liability	-	-	-	-	-
Total current liabilities	149	14,498	4,011	429	278
Noncurrent liabilities:					
Compensated absences	37	167	1,000	19	14
Advance from other funds	-	-	-	200	-
Capital lease obligation	-	14,248	2,205	-	-
Estimated claims liabilities	-	-	-	-	-
Other long-term liabilities	-	1,500	-	-	-
Total noncurrent liabilities	37	15,915	3,205	219	14
Total liabilities	186	30,413	7,216	648	292
NET ASSETS:					
Invested in capital assets, net of related debt	64	11,742	1,325	535	334
Unrestricted (deficit)	731	1,055	10,455	2,287	3,211
Total net assets	$ 795	$ 12,797	$ 11,780	$ 2,822	$ 3,545

OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total	
					ASSETS:
					Current assets:
$ 7,062	$ 180,159	$ 2,585	$ 5,502	$ 221,019	Cash and investments
-	2,247	-	15	2,470	Accounts receivable-net
78	1,873	-	50	2,114	Interest receivable
-	-	-	-	122	Due from other government
-	-	-	-	200	Advance to other funds
-	-	-	328	2,743	Inventories
-	184	-	-	184	Due from other funds
-	-	-	-	11	Prepaid items and deposits
7,140	184,463	2,585	5,895	228,863	Total current assets
					Noncurrent assets:
					Capital assets:
1,856	117	31	2,280	45,648	Depreciable assets
-	-	-	-	350	Non depreciable assets
1,856	117	31	2,280	45,998	Total noncurrent assets
8,996	184,580	2,616	8,175	274,861	Total assets
					LIABILITIES:
					Current liabilities:
152	5,084	88	123	9,945	Accounts payable
451	1,106	1,625	86	4,921	Salaries and benefits payable
-	-	54	-	54	Due to other funds
-	8	-	82	92	Due to other governments
-	1	-	-	1,860	Other liabilities
390	737	62	85	2,866	Compensated absences
-	-	-	-	9,761	Capital lease obligation
-	39,594	-	-	39,594	Estimated claims liability
993	46,530	1,829	376	69,093	Total current liabilities
					Noncurrent liabilities:
440	556	67	179	2,479	Compensated absences
-	-	-	-	200	Advance from other funds
-	-	-	-	16,453	Capital lease obligation
-	95,634	-	-	95,634	Estimated claims liabilities
-	-	-	-	1,500	Other long-term liabilities
440	96,190	67	179	116,266	Total noncurrent liabilities
1,433	142,720	1,896	555	185,359	Total liabilities
					NET ASSETS:
1,856	117	31	2,280	18,284	Invested in capital assets, net of related debt
5,707	41,743	689	5,340	71,218	Unrestricted (deficit)
$ 7,563	$ 41,860	$ 720	$ 7,620	$ 89,502	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, 2007

(Dollars in Thousands)

	Records Management and Archives	Fleet Services	Information Services	Printing Services	Supply Services
OPERATING REVENUES:					
Charges for services	$ 2,708	$ 25,122	$ 38,403	$ 5,613	$ 9,310
Other revenue	-	456	7	2,591	9,971
Total operating revenues	2,708	25,578	38,410	8,204	19,281
OPERATING EXPENSES:					
Cost of materials used	-	1,743	-	-	-
Personnel services	1,386	3,610	18,521	1,735	614
Communications	15	85	3,533	36	34
Insurance	38	69	142	14	20
Maintenance of building and equipment	169	2,359	5,139	339	13
Insurance claims	-	-	-	-	-
Supplies	159	6,211	2,107	3,797	17,209
Purchased services	70	755	2,668	1,523	441
Depreciation and amortization	19	8,018	4,719	413	33
Rents and leases of equipment	286	1	755	35	-
Utilities	38	12	143	1	-
Other	24	156	709	56	110
Total operating expenses	2,204	23,019	38,436	7,949	18,474
Operating income (loss)	504	2,559	(26)	255	807
NONOPERATING REVENUES (EXPENSES):					
Investment income	32	21	158	8	12
Interest expense	-	(652)	(377)	(14)	-
Gain (loss) on disposal of capital assets	-	15	(4)	(16)	-
Total nonoperating revenues (expenses)	32	(616)	(223)	(22)	12
Income (loss) before capital contributions and transfers	536	1,943	(249)	233	819
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	50	-
Transfers out	(33)	(85)	(448)	(40)	(15)
CHANGE IN NET ASSETS	503	1,858	(697)	243	804
Net assets, beginning of year	292	10,939	12,477	2,579	2,741
NET ASSETS, END OF YEAR	$ 795	$ 12,797	$ 11,780	$ 2,822	$ 3,545

	OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total
OPERATING REVENUES:					
Charges for services	$ 14,470	$ 44,320	$ 25,853	$ 1,110	$ 166,909
Other revenue	-	11,795	43	4,895	29,758
Total operating revenues	14,470	56,115	25,896	6,005	196,667
OPERATING EXPENSES:					
Cost of materials used	-	-	-	42	1,785
Personnel services	6,025	12,522	21,665	1,971	68,049
Communications	274	173	53	2	4,205
Insurance	19	7,480	18	-	7,800
Maintenance of building and equipment	1,492	61	7	679	10,258
Insurance claims	-	61,695	-	-	61,695
Supplies	240	1,097	267	946	32,033
Purchased services	4,935	2,919	2,445	708	16,464
Depreciation and amortization	1,258	53	26	867	15,406
Rents and leases of equipment	460	885	190	2	2,614
Utilities	27	23	18	-	262
Other	692	1,090	274	476	3,587
Total operating expenses	15,422	87,998	24,963	5,693	224,158
Operating income (loss)	(952)	(31,883)	933	312	(27,491)
NONOPERATING REVENUES (EXPENSES):					
Investment income	122	8,157	10	213	8,733
Interest expense	-	-	-	-	(1,043)
Gain (loss) on disposal of capital assets	3	-	(6)	61	53
Total nonoperating revenues (expenses)	125	8,157	4	274	7,743
Income (loss) before capital contributions and transfers	(827)	(23,726)	937	586	(19,748)
Capital contributions	-	48,258	-	-	48,258
Transfers in	-	2,342	-	724	3,116
Transfers out	(150)	(2,652)	(1,005)	-	(4,428)
CHANGE IN NET ASSETS	(977)	24,222	(68)	1,310	27,198
Net assets, beginning of year	8,540	17,638	788	6,310	62,304
NET ASSETS, END OF YEAR	$ 7,563	$ 41,860	$ 720	$ 7,620	$ 89,502

COUNTY OF RIVERSIDE
Combining Statements of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Record Mgt and Archive	Fleet Service	Information Services	Printing Services	Supply Services	OASIS Project	Risk Management	Temporary Assistance Pool	Flood Control Equipment	Total
Cash flows from operating activities										
Cash receipts from internal services provided	$ 2,688	$ 25,536	$ 38,410	$ 8,031	$ 19,280	$ 14,470	$ 55,905	$ 25,896	$ 6,009	$ 196,225
Cash paid to suppliers for goods and services	(814)	(11,934)	(17,084)	(5,785)	(18,650)	(8,873)	(68,044)	(3,283)	(3,147)	(137,614)
Cash paid to employees for services	(1,423)	(3,509)	(18,678)	(1,726)	(682)	(5,937)	(11,991)	(21,627)	(1,922)	(67,495)
Net cash provided by (used in) operating activities	451	10,093	2,648	520	(52)	(340)	(24,130)	986	940	(8,884)
Cash flows from noncapital financing activities										
Transfers received	-	-	-	50	-	-	2,342	-	724	3,116
Transfers paid	(33)	(85)	(448)	(40)	(15)	(150)	(2,652)	(1,005)	-	(4,428)
Net cash provided by (used in) noncapital financing activities	(33)	(85)	(448)	10	(15)	(150)	(310)	(1,005)	724	(1,312)
Cash flows from capital and related financing activities										
Proceeds from sale of capital assets	1	15	1,358	(16)	3	3	5	-	61	1,430
Acquisition and construction of capital assets	-	(4,368)	-	(151)	(37)	(1,090)	(152)	-	(876)	(6,674)
Principal paid on capital leases	-	(4,542)	(1,850)	(239)	-	-	-	-	-	(6,631)
Capital contributions	-	-	-	-	-	-	48,258	-	-	48,258
Interest paid on long-term debt	-	(652)	(377)	(14)	-	-	-	-	-	(1,043)
Net cash used in capital and related financing activities	1	(9,547)	(869)	(420)	(34)	(1,087)	48,111	-	(815)	35,340
Cash flows from investing activities										
Interest received on investments	26	21	54	8	12	44	7,394	10	191	7,760
Net cash provided by investing activities	26	21	54	8	12	44	7,394	10	191	7,760
Net increase (decrease) in cash and cash equivalents	445	482	1,385	118	(89)	(1,533)	31,065	(9)	1,040	32,904
Cash and cash equivalents, beginning of year	443	5,898	11,644	2,188	3,197	8,595	149,094	2,594	4,462	188,115
Cash and cash equivalents, end of year	$ 888	$ 6,380	$ 13,029	$ 2,306	$ 3,108	$ 7,062	$ 180,159	$ 2,585	$ 5,502	$ 221,019
Reconciliation of operating income to net cash provided (used) by operating activities										
Operating income (loss)	$ 504	$ 2,559	$ (26)	$ 255	$ 807	$ (952)	$ (31,883)	$ 933	$ 312	$ (27,491)
Adjustments to reconcile operating income to net cash provided (used) by operating activities										
Depreciation and amortization	19	8,018	4,719	413	33	1,258	53	26	867	15,406
Decrease (Increase) accounts receivable	(20)	(15)	-	(78)	(1)	-	(26)	-	4	(136)
Decrease (Increase) due from other funds	-	-	-	-	-	-	(184)	-	-	(184)
Decrease (Increase) due from other governments	-	(27)	-	(95)	-	-	-	-	-	(122)
Decrease (Increase) inventories	-	(57)	(212)	40	(85)	-	-	-	(96)	(410)
Decrease (Increase) prepaid items and deposits	-	-	111	(11)	-	-	-	-	-	100
Increase (Decrease) accounts payable	(15)	(273)	(1,787)	(9)	(650)	(734)	2,307	(65)	(278)	(1,504)
Increase (Decrease) due to other funds	-	-	-	-	-	-	-	54	-	54
Increase (Decrease) due to other governments	-	-	-	-	2	-	8	-	82	92
Increase (Decrease) other liabilities	-	(213)	-	(4)	(90)	-	-	-	-	(307)
Increase (Decrease) estimated claims liability	-	-	-	-	-	-	5,064	-	-	5,064
Increase (Decrease) salaries and benefits payable	(13)	18	(102)	7	(13)	71	253	299	23	543
Increase (Decrease) compensated absences	(24)	83	(55)	2	(55)	17	278	(261)	26	11
Net cash provided by operating activities	$ 451	$ 10,093	$ 2,648	$ 520	$ (52)	$ (340)	$ (24,130)	$ 986	$ 940	$ (8,884)
Supplemental disclosure of noncash investing, capital, and financing activities		$ 11,544	$ 1,715							$ 13,259

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FIDUCIARY FUNDS

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CONSTANCE REID
"Musical World"

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COUNTY OF RIVERSIDE

FIDUCIARY FUNDS

These funds were established for the purpose of accounting for assets held in trustee or agency capacity for oth and therefore cannot be used to support the government's own programs and are excluded from the governme wide financial statements.

OTHER AGENCY FUND

This fund was established to account for a wide array of fiduciary responsibilities. Some of these responsibilit include tax payments clearing, asset forfeiture, State Controller clearing, child support collections, undistribu bond proceeds, and family support clearing.

PAYROLL DEDUCTION AGENCY FUND

The purpose of this fund is to collect deductions from employee wages. The deductions are owed to a variety third parties for health insurance, union dues, unemployment insurance, withholding tax, flexible spending accou and dental insurance.

PROPERTY TAX ASSESSMENT AGENCY FUND

The Property Tax Assessment Agency Fund was set up to help Riverside County account for apportioned ta 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, 2007

(Dollars in Thousands)

	Other	Payroll Deductions	Property Tax Assessments	Warrants	Total
ASSETS:					
Cash and investments	$ 84,944	$ 771	$ 168,382	$ 96,148	$ 350,245
Accounts receivable	-	-	1	-	1
Interest receivable	300	37	-	5	342
Taxes receivable	125	16	113,874	4	114,019
Due from other governments	164	-	-	-	164
Total assets	85,533	824	282,257	96,157	464,771
LIABILITIES:					
Accounts payable	85,522	824	1,394	96,157	183,897
Salaries and benefits payable	10	-	-	-	10
Due to other governments	1	-	280,863	-	280,864
Total liabilities	$ 85,533	$ 824	$ 282,257	$ 96,157	$ 464,771

COUNTY OF RIVERSIDE

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the Fiscal Year Ended June 30, 2007

(Dollars in Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Other				
Assets				
Cash and investments	$ 126,666	$ 3,816,033	$ 3,857,755	$ 84,944
Interest receivable	185	300	185	300
Taxes receivable	69	461	405	125
Due from other governments	14,676	179	14,691	164
Total Assets	141,596	3,816,973	3,873,036	85,533
Liabilities				
Accounts payable	141,504	566,651	622,633	85,522
Salaries and benefits payable	7	10	7	10
Due to other governments	85	3,757,755	3,757,839	1
Total Liabilities	$ 141,596	$ 4,324,416	$ 4,380,479	$ 85,533
Payroll Deductions				
Assets				
Cash and investments	$ 7,683	$ 1,397,937	$ 1,404,849	$ 771
Interest receivable	26	37	26	37
Taxes receivable	11	15	10	16
Total Assets	7,720	1,397,989	1,404,885	824
Liabilities				
Accounts payable	7,720	1,012,551	1,019,447	824
Total Liabilities	$ 7,720	$ 1,012,551	$ 1,019,447	$ 824
Property Tax Assessments				
Assets				
Cash and investments	$ 133,295	$ 3,166,590	$ 3,131,503	$ 168,382
Accounts receivable	-	2	1	1
Taxes receivable	56,918	113,874	56,918	113,874
Due from other governments	12,356		12,356	-
Total Assets	202,569	3,280,466	3,200,778	282,257
Liabilities				
Accounts payable	1,396	223,412	223,414	1,394
Due to other governments	201,173	3,268,970	3,189,280	280,863
Total Liabilities	$ 202,569	$ 3,492,382	$ 3,412,694	$ 282,257

COUNTY OF RIVERSIDE
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Warrants				
Assets				
Cash and investments	$ 63,245	$ 6,002,523	$ 5,969,620	$ 96,148
Interest receivable	5	5	5	5
Taxes receivable	11	4	11	4
Total Assets	63,261	6,002,532	5,969,636	96,157
Liabilities				
Accounts payable	63,261	6,003,545	5,970,649	96,157
Total Liabilities	$ 63,261	$ 6,003,545	$ 5,970,649	$ 96,157
Total Agency Funds				
Assets				
Cash and investments	$ 330,889	$ 14,383,083	$ 14,363,727	$ 350,245
Accounts receivable	-	2	1	1
Interest receivable	216	342	216	342
Taxes receivable	57,009	114,354	57,344	114,019
Due from other government	27,032	179	27,047	164
Total Assets	415,146	14,497,960	14,448,335	464,771
Liabilities				
Accounts payable	213,881	7,806,159	7,836,143	183,897
Salaries and benefits payable	7	10	7	10
Due to other government	201,258	7,026,725	6,947,119	280,864
Total Liabilities	$ 415,146	$ 14,832,894	$ 14,783,269	$ 464,771

STATISTICAL SECTION

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FLO RICHARDS
"Japanese Fan Dancer"

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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 annual financial report users in understanding the financial statements, note disclosures, required supplementary information, and assessing the County's financial condition.

Contents	**Table(s)**
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 five years beginning with the first year after GASB Statement 34 implementation.

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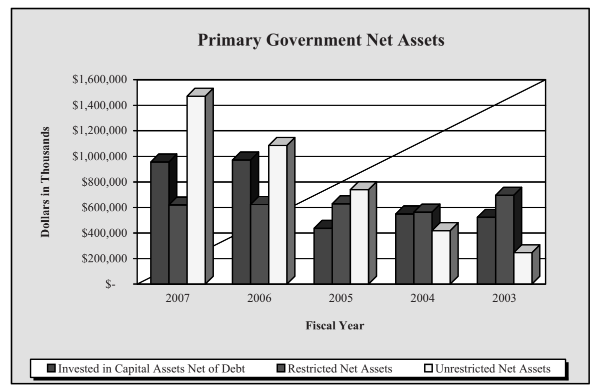
Table 1

COUNTY OF RIVERSIDE
Net Assets by Component
Last Five Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year				
	2007	**2006**	**2005**	**2004**	**2003**
Governmental Activities					
Invested in capital assets, net of related debt	$ 903,076	$ 930,800	$ 407,762	$ 524,624	$ 503,294
Restricted	569,477	582,037	584,441	521,143	662,446
Unrestricted	1,370,350	999,992	671,917	387,007	205,952
Governmental activities, total net assets	2,842,903	2,512,829	1,664,120	1,432,774	1,371,692
Business-type Activities					
Invested in capital assets, net of related debt	53,321	40,986	29,583	25,102	19,972
Restricted	50,629	41,287	45,362	43,232	33,740
Unrestricted	100,567	85,971	67,502	31,602	40,096
Business-type activities, total net assets	204,517	168,244	142,447	99,936	93,808
Primary Government					
Invested in capital assets, net of related debt	956,397	971,786	437,345	549,726	523,266
Restricted	620,106	623,324	629,803	564,375	696,186
Unrestricted	1,470,917	1,085,963	739,419	418,609	246,048
Primary government, total net assets	$ 3,047,420	$ 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 Five Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year				
	2007	2006	2005	2004	2003
Program Revenues					
Governmental Activities:					
Charges for services	$ 609,195	$ 575,071	$ 458,992	$ 436,029	$ 393,482
Operating grants and contributions	1,210,941	1,100,674	983,290	1,086,456	1,050,230
Capital grants and contributions	48,186	31,001	64,252	33,041	32,537
Governmental activities program revenues	1,868,322	1,706,746	1,506,534	1,555,526	1,476,249
Business-type Activities:					
Charges for services	475,611	465,391	480,455	385,028	299,419
Capital grants and contributions	261	227	-	125	9,712
Business-type activities program revenues	475,872	465,618	480,455	385,153	309,131
Primary government program revenues	2,344,194	2,172,364	1,986,989	1,940,679	1,785,380
Expenses					
Governmental Activities:					
General government	296,917	259,993	187,911	232,322	183,132
Public protection	935,550	801,044	792,287	710,053	620,663
Public ways and facilities	57,578	61,443	79,649	93,529	87,092
Health and sanitation	350,082	350,451	290,001	376,338	330,830
Public assistance	688,213	634,522	552,298	590,719	588,502
Education	14,847	11,168	10,112	10,280	8,609
Recreation and cultural	11,941	7,188	8,617	9,666	8,842
Interest on long-term debt	81,197	75,721	48,717	29,890	33,666
Governmental activities expenses	2,436,325	2,201,530	1,969,592	2,052,797	1,861,336
Business-type Activities:					
Regional Medical Center	329,128	290,962	356,255	296,227	228,339
Waste Management Department	60,772	66,453	55,563	40,056	36,579
Housing Authority	70,218	62,909	62,206	61,599	57,977
Flood Control	6,242	5,705	4,928	4,318	2,054
County Service Areas	329	285	320	329	294
Business-type activities expense	466,689	426,314	479,272	402,529	325,243
Primary government expenses	$2,903,014	$2,627,844	$2,448,864	$2,455,326	$2,186,579
Net (expense)/revenue					
Governmental activities	(568,003)	(494,784)	(463,058)	(497,271)	(385,087)
Business-type activities	9,183	39,304	1,183	(17,376)	(16,112)
Primary government, net (expense) / revenue	(558,820)	(455,480)	(461,875)	(514,647)	(401,199)

Table 2

COUNTY OF RIVERSIDE
Changes in Net Assets
Last Five Fiscal Years
(Accrual basis of accounting)
(Amounts expressed in thousands)

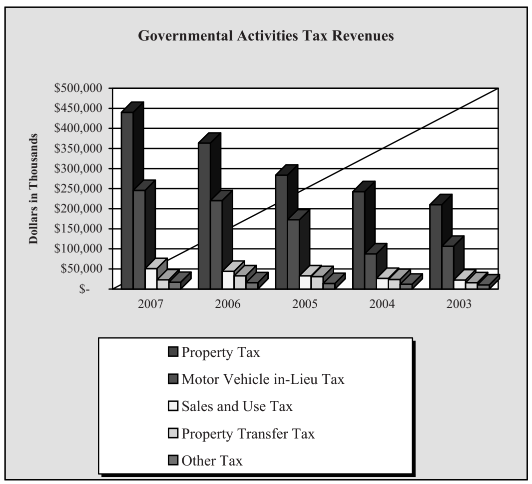
	Fiscal Year				
	2007	2006	2005	2004	2003
Continued:					
Primary government, net (expense) / revenue	$ (558,820)	$ (455,480)	$ (461,875)	$ (514,647)	$ (401,199)
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Property taxes	462,817	396,167	314,666	266,391	225,775
Sales tax and use tax	51,093	44,286	33,091	26,633	22,444
Other taxes	16,865	15,603	13,885	12,108	10,377
Intergovernmental revenue - not restricted to programs:					
Motor vehicle in-lieu taxes	245,723	220,190	172,265	87,435	106,466
Fines, forfeitures, and penalties	-	-	70,578	43,344	37,914
Investment earnings	122,517	78,288	39,907	16,835	24,909
Proceeds on sale of capital assets	-	-	(18,407)	1,491	504
Other	13,191	96,265	117,737	146,392	117,706
Transfers	(16,892)	19,888	(31,000)	(16,791)	(13,287)
Governmental activities	895,314	870,687	712,722	583,838	532,808
Business-type Activities:					
Investment earnings	10,198	6,381	4,234	2,505	3,235
Gain on sale of capital assets	-	-	346	4,208	754
Transfers	16,892	(19,888)	31,000	16,791	13,287
Business-type activities	27,090	(13,507)	35,580	23,504	17,276
Total primary government	922,404	857,180	748,302	607,342	550,084
Change in net assets					
Governmental activities	327,311	375,903	249,664	86,567	147,721
Business-type activities	36,273	25,797	36,763	6,128	1,164
Primary government change in net assets	$ 363,584	$ 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 Five 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
2007	$ 439,981	$ 22,836	$ 51,093	$ 245,723	$ 16,865	$ 776,498
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 Five Fiscal Years
(Modified accrual basis of accounting)
(Amounts expressed in thousands)

	Fiscal Year 2007	2006	2005	2004	2003
General Fund					
Reserved	$ 88,233	$ 100,436	$ 121,249	$ 100,940	$ 103,489
Unreserved, designated	339,773	277,833	185,014	70,361	89,011
Unreserved, undesignated	142,958	68,649	46,191	77,752	26,078
Total general fund	570,964	446,918	352,454	249,053	218,578
Public Facilities Improvements					
Reserved	256,338	222,983	175,699	152,842	146,588
Unreserved, undesignated	-	-	-	184	-
Total public facilities improvements	256,338	222,983	175,699	153,026	146,588
Redevelopment Capital Projects					
Reserved	269,263	88,391	61,460	-	-
Unreserved, designated	118,186	120,313	75,702	-	-
Total redevelopment capital projects	387,449	208,704	137,162	-	-
Nonmajor Governmental Funds					
Reserved	192,566	197,878	149,222	159,413	159,357
Unreserved, designated reported in:					
Special revenue funds	187,664	212,407	86,593	13,041	11,929
Capital projects funds	9,671	2,056	1,805	20,353	5,128
Unreserved, undesignated reported in:					
Special revenue funds	148,361	109,608	197,438	189,570	186,964
Capital projects funds	-	-	-	(8,241)	981
Total nonmajor governmental funds	538,262	521,949	435,058	374,136	364,359
Total all governmental funds	$ 1,753,013	$ 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 Five Fiscal Years
(Modified accrual basis of accounting)
(Amounts expressed in thousands)

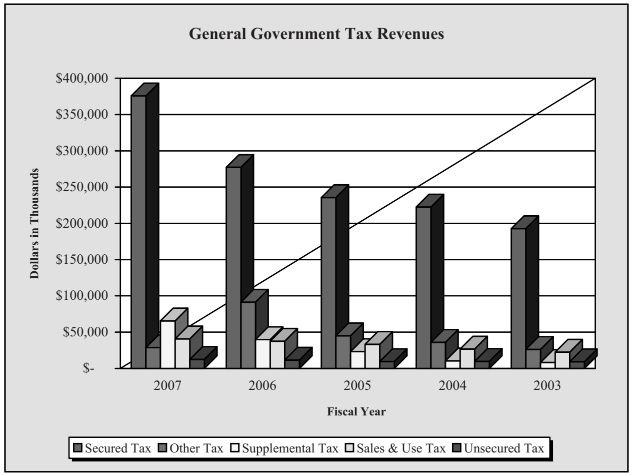
	Fiscal Year				
	2007	2006	2005	2004	2003
Revenues					
Taxes	$ 523,028	$ 457,117	$ 346,248	$ 305,132	$ 258,596
Licenses, permits, and franchise fees	25,981	21,733	22,343	26,418	25,677
Fines, forfeitures, and penalties	82,946	62,984	70,578	43,297	37,241
Use of money and property:					
Interest	113,789	73,838	37,624	16,145	23,331
Rents and concessions	43,171	41,798	39,831	31,952	39,833
Aid from other governmental agencies:					
Federal	496,685	451,036	446,628	430,970	428,433
State	937,630	830,634	705,289	713,146	696,466
Other	89,111	69,042	55,661	46,750	46,099
Charges for services	431,676	439,594	383,497	368,497	327,918
Other revenue	115,863	110,870	146,800	100,404	132,900
Total revenues	2,859,880	2,558,646	2,254,499	2,082,711	2,016,494
Expenditures					
General government	320,254	270,340	250,568	217,416	204,861
Public protection	972,006	855,133	1,039,822	677,798	613,781
Public ways and facilities	157,055	141,017	111,088	133,973	120,490
Health and sanitation	348,921	346,738	339,444	365,727	339,123
Public assistance	686,295	629,553	652,069	576,267	570,458
Education	14,830	11,108	9,889	10,241	9,261
Recreation and culture	11,707	12,727	20,058	9,242	10,722
Debt service:					
Principal	44,222	45,516	34,452	32,118	37,643
Interest	78,204	73,707	46,439	24,523	31,220
Cost of issuance	5,565	4,925	9,283	504	-
Capital outlay	58,525	25,639	9,680	1,604	22,489
Total expenditures	2,697,584	2,416,403	2,522,792	2,049,413	1,960,048
Revenues over (under) expenditures	162,296	142,243	(268,293)	33,298	56,446
Other financing sources (uses)					
Transfers in	313,044	294,835	203,411	163,383	58,661
Transfers out	(328,624)	(277,680)	(229,835)	(179,701)	(71,879)
Issuance of debt	293,773	178,750	670,530	21,645	-
Premium on long-term debt	2,876	857	4,827	-	-
Issuance of refunding bonds	(103,396)	(35,684)	(53,338)	-	-
Proceeds from the sale of capital assets	916	2,064	35	494	-
Capital leases	8,811	7,929	6,616	1,008	8,435
Total other financing sources (uses)	187,400	171,071	602,246	6,829	(4,783)
Net change in fund balances	$ 349,696	$ 313,314	$ 333,953	$ 40,127	$ 51,663
Debt service as a % of non-capital expenditures	5.30%	5.70%	3.74%	2.89%	3.68%

Source: Auditor-Controller, County of Riverside

Table 6

COUNTY OF RIVERSIDE
General Government Tax Revenues By Source
Last Five 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
2007	$ 375,924	$ 12,301	$ 65,537	$ 40,607	$ 28,659	$ 523,028
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

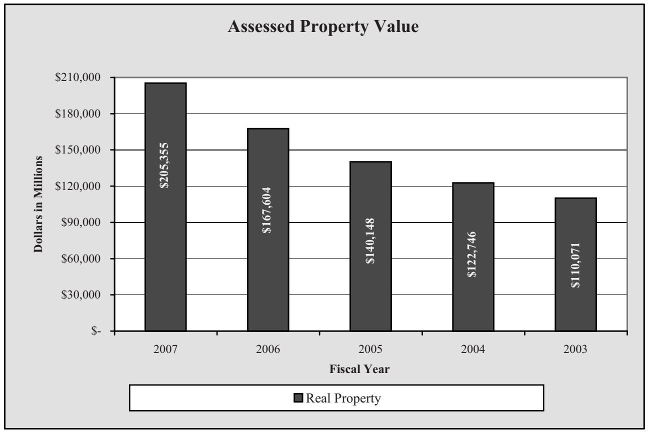


Source: Auditor-Controller, County of Riverside

Table 7

COUNTY OF RIVERSIDE
Assessed Value and Estimated Actual Value of Taxable Property
Last Five Fiscal Years
(Amounts expressed in thousands)

	Fiscal Year				
	2007	**2006**	**2005**	**2004**	**2003**
Real Property					
Secured property	$ 198,619,682	$ 161,287,719	$ 134,299,740	$ 117,379,593	$ 105,080,028
Unsecured property	6,735,421	6,316,569	5,848,602	5,365,993	4,990,478
Total Gross Assessed Value	205,355,103	167,604,288	140,148,342	122,745,586	110,070,506
Less:					
Tax-exempt real property	5,109,756	4,993,449	4,657,680	4,264,442	3,878,514
Total Taxable Assessed Value	$ 200,245,347	$ 162,610,839	$ 135,490,662	$ 118,481,144	$ 106,191,992
Total Direct Tax Rate	1.0772	1.0805	1.0866	1.0771	1.0787
Estimated Actual Taxable Value	$ 266,993,796	$ 216,814,452	$ 180,654,216	$ 157,974,859	$ 141,589,323
Assessed Value as a % of Actual Value	76.91%	77.30%	77.58%	77.70%	77.74%



Source: Assessor-Clerk-Recorder, County of Riverside

Table 8

COUNTY OF RIVERSIDE
Property Tax Rates
Direct and Overlapping Governments
Last Five Fiscal Years

	County of Riverside	Range of Overlapping Rates			
Fiscal Year	**Total County Rate**	**Total City Rate**	**Total School District Rate**	**Total Special District Rate**	**Total Direct & Overlapping Rates**
2007	1.00000%	.00249% to .00821%	.00578% to .10282%	0% to .54324%	1% to 1.54324%
2006	1.00000%	.00426% to .00861%	.01435% to .10210%	0% to .50997%	1% to 1.50997%
2005	1.00000%	.00529% to .01092%	.01192% to .09581%	0% to .50000%	1% to 1.50000%
2004	1.00000%	0% to .00608%	0% to .09819%	0% to .72543%	1% to 1.72543%
2003	1.00000%	0% to .00792%	0% to .72543%	0% to .71888%	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)
Current Year and Nine Years Ago

	Fiscal Year			
	2007		1998	
Tax Payer	Taxable Assessed Value	Percentage of Total County Taxable Assessed Value	Taxable Assessed Value	Percentage of Total County Taxable Assessed Value
So. California Edison Co.	$ 8,679	0.41%	$ 7,166	0.74%
Verizon Network	7,242	0.34%	-	0.00%
Centex Homes	7,057	0.33%	-	0.00%
Pulte Home Corp	5,400	0.25%	-	0.00%
KB Home Coastal Inc.	3,743	0.18%	-	0.00%
So. California Gas Co.	3,737	0.18%	3,445	0.35%
Ryland Homes of California Inc.	3,558	0.17%	-	0.00%
Western Pacific Housing Inc.	3,266	0.15%	-	0.00%
Blythe Energy, LLC	3,008	0.14%	-	0.00%
Wolf Creek Development	2,567	0.12%	-	0.00%
General Telephone Co. of California	-	0.00%	9,064	0.93%
McKenzie Vista	-	0.00%	3,019	0.31%
Pacific Bell	1,641	0.08%	2,836	0.29%
KSL Desert Resorts, Inc.	2,402	0.11%	2,269	0.23%
Landmark Land Co. of California, Inc.	-	0.00%	2,160	0.22%
International Rectifier Corp.	-	0.00%	2,082	0.21%
Desert Springs Marriott Ltd. Partinership	-	0.00%	1,975	0.20%
Pardee Grossman Cottonwood Canyon	-	0.00%	1,972	0.20%
Total	$ 52,300	2.46%	$ 35,988	3.69%

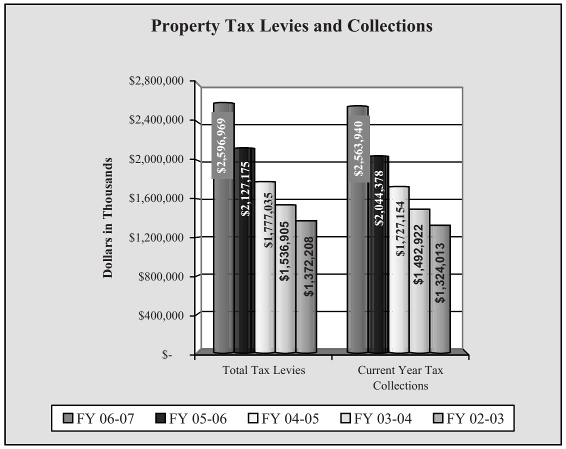
Source: Treasurer-Tax Collector, County of Riverside

Table 10

COUNTY OF RIVERSIDE
Property Tax Levies and Collections
Last Five 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
2007	$ 2,596,969	$ 2,563,940	98.73%	$ 86,437	$ 2,650,377	102.06%
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%

*Delinquent taxes reported by year of collection; data by levy year unavailable.

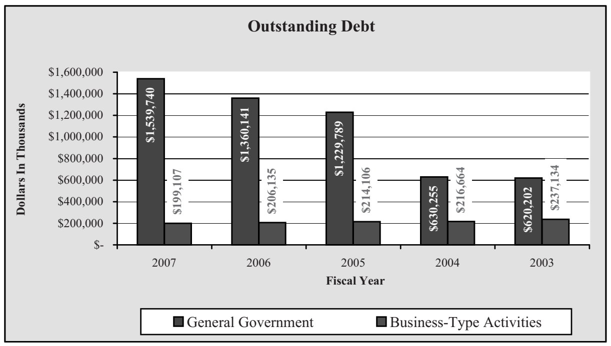


Source: Auditor-Controller, County of Riverside

Table 11

COUNTY OF RIVERSIDE
Ratios of Outstanding Debt by Type
Last Five Fiscal Years
(Amounts expressed in thousands, except per capita amount)

	Fiscal year 2007	2006	2005	2004	2003
General Government					
Bonds	$ 806,398	$ 814,443	$ 678,028	$ 91,758	$ 91,758
Certificates of participation	335,866	348,486	325,572	387,869	357,855
Note and loans	310,139	113,383	150,344	67,010	68,060
Capital leases	87,337	83,829	75,845	83,618	102,529
Business-Type Activities					
Bonds	181,263	191,142	200,555	210,558	228,392
Certificates of participation	-	-	1,040	2,040	3,000
Capital leases	17,844	14,993	12,511	4,066	5,742
Total Primary Government	$ 1,738,847	$ 1,566,276	$ 1,443,895	$ 846,919	$ 857,336
Percentage of Personal Income	3.08%	2.94%	2.92%	1.88%	2.01%
Per Capita	$ 856	$ 807	$ 769	$ 477	$ 499



Note: Per Capita is an estimate for 2006 and 2007

Source: California State Department of Finance and Auditor-Controller, County of Riverside

Table 12

COUNTY OF RIVERSIDE
Ratios of General Bonded Debt Outstanding
Last Five Fiscal Years
(Amounts expressed in thousands, except per capita amount)

	Fiscal Year 2007	2006	2005	2004	2003
Bonds	$ 806,398	$ 814,443	$ 678,028	$ 91,758	$ 91,758
Less:					
Amounts available in debt service fund	73,308	79,935	61,941	72,798	133,049
Total Net Obligation Bonds Outstanding	$ 733,090	$ 734,508	$ 616,087	$ 18,960	$ (41,291)
Percentage of Estimated Actual Taxable Value of Property	0.27%	0.27%	0.32%	0.46%	0.44%
Per Capita	$ 361	$ 379	$ 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, 2007
(Amounts expressed in thousands)

Governmental Unit	Debt Outstanding	Estimated Applicable Percentage	Estimated Share of Overlapping Debt
Debt repaid with property taxes: County	$ 7,468,703	86.13%	$ 6,432,792
Subtotal, overlapping debt			6,432,792
County of Riverside direct debt			1,035,911
Total direct and overlapping debt			$ 7,468,703

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 Five Fiscal Years
(Amounts expressed in thousands)

	Fiscal Year 2007	2006	2005	2004	2003
Debt limit	$ 2,598,369	$ 2,125,832	$ 1,735,525	$ 1,511,307	$ 1,353,391
Total net debt applicable to limit	(733,090)	(603,194)	(616,087)	(635,290)	(620,202)
Legal debt margin	$ 1,865,279	$ 1,522,638	$ 1,119,438	$ 876,017	$ 733,189
Total net debt applicable to the limit as a percentage of debt limit	28.2%	28.4%	35.5%	42.0%	45.8%

Legal Debt Margin Calculated for Fiscal Year 2007

Assessed value	$ 205,744,450
Less: Homeowners exemptions	2,125,076
Total assessed value	207,869,526
Debt limit (1.25% of total assessed value)	2,598,369
Debt applicable to limit:	
General obligation bonds	806,398
Less: Amount set aside for repayment of general obligation debt	73,308
Total net debt applicable to limit	733,090
Legal debt margin	$ 1,865,279

Definitions:
Debt limit - the maximum amount of outstanding gross or net debt legally permitted.
Debt margin - the difference between debt limit and existing debt.
Legal debt margin - the excess of the amount of debt legally authorized over the amount of debt outstanding

Source: Auditor-Controller, County of Riverside

Table 15

COUNTY OF RIVERSIDE
Pledged-Revenue Coverage
Last Five Fiscal Years
(Amounts expressed in thousands)

	Lease Revenue Bonds					
	Revenue from Lease Payments	Less: Operating Expenses	Net Available Revenue	Debt Service		
Fiscal Year				Principal	Interest	Coverage
2007	$ 27,046	$ 5,939	$ 21,107	$ 12,115	$ 16,976	0.7256
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

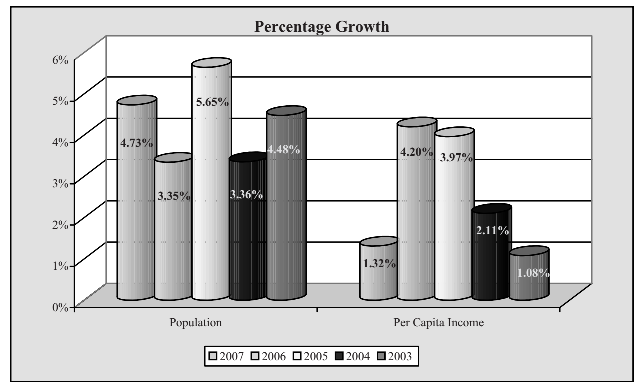
Note: Details regarding the county's outstanding debt can be found in the notes to the basic financial statements.

Source: Auditor-Controller, County of Riverside

Table 16

COUNTY OF RIVERSIDE
Demographic and Economic Statistics
Last Five 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
2007	2,031,625	$53,246,505 [1]	$ 27,810 [1]	33 [2]	12.2 [2]	404,331	5.70%
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: [1] Projection based on 13 year running average
[2] 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
Current Year and Nine Years Ago

	Fiscal Year			
	2007		1998	
Employer	Employees	Percentage of Total County Employment	Employees	Percentage of Total County Employment
County of Riverside	19,669	2.27%	11,687	1.90%
March Air Reserve Base	8,750	1.01%	-	
U. C. Riverside	6,657	0.77%	-	
Stater Brothers Market	6,125	0.71%	3,200	0.52%
Riverside Unified School District	5,099	0.59%	-	
Pechanga Resort & Casino	4,800	0.55%	-	
Guidant corp.	4,500	0.52%	1,300	0.21%
Riverside Community College District	3,753	0.43%	-	
Kaiser Permanente	3,200	0.37%	1,600	0.26%
Morongo Casino Resort & Spa	3,000	0.35%	-	
Eisenhower Medical Center	-		1,822	0.30%
Fleetwood Enterprise, Inc.	-		1,800	0.29%
Valley Health System	-		1,750	0.28%
Marriott Desert springs Resort	-		1,600	0.26%
La Quinta Hotel Golf & Tennis	-		1,500	0.24%
Bourns, Inc.	-		1,500	0.24%
The press-Enterprise	-		1,228	0.20%
Total	65,553	7.57%	28,987	4.71%

Note: Only the top ten employers that provided data to the Business Press are listed for each year.

Source: The Business Press, Riverside, California

Table 18

COUNTY OF RIVERSIDE
Full-time Equivalent County Government Employees by Function/Program
Last Five Fiscal Years

	Full-time Equivalent Employees				
Function/Program	2007	2006	2005	2004	2003
General government					
Legislative and administrative	92	93	87	92	93
Finance	477	445	424	445	449
Counsel	69	58	52	50	50
Personnel	191	179	160	153	144
Elections	39	31	34	36	39
Communication	-	-	-	11	10
Property management	387	323	305	312	306
Promotion	168	142	126	121	110
Other general	-	-	1	1	1
Public protection					
Judicial	1,371	1,204	1,150	1,213	1,260
Police protection	2,354	2,113	1,926	1,914	1,902
Detention and correction	1,972	1,811	1,748	1,803	1,832
Fire protection	165	145	126	135	122
Protection/inspection	274	254	233	216	206
Other protection	541	523	441	446	419
Administration	50	39	36	37	35
Public ways and facilities					
Public ways	517	497	488	491	476
Health and sanitation					
Health	2,023	1,939	1,862	1,901	1,929
Hospital care	31	28	30	32	31
California children's services	159	152	143	127	119
Public assistance					
Aid programs	2,948	2,841	2,796	2,744	2,720
Veterans' services	12	11	10	10	11
Other assistance	302	283	309	338	452
Education, recreation and culture					
Library services	1	1	1	1	1
Agricultural extension	5	5	4	4	5
Cultural services	2	2	2	2	-
County business-type functions					
Hospital care	1,889	1,680	1,589	1,526	1,538
Sanitation	170	158	149	130	94
Internal service	2,934	2,538	2,147	2,305	2,058
Special districts	526	540	528	528	514
Total	19,669	18,035	16,907	17,124	16,926

Source: County of Riverside

Table 19

COUNTY OF RIVERSIDE
Operating Indicators by Function
Last Five Fiscal Years

Function/Program		Fiscal year 2007	2006	2005	2004	2003
Sheriff						
Number of bookings		63,512	56,926	55,375	52,497	49,617
Coroner case load		9,430	8,943	8,558	7,826	7,772
Calls for services	c	277,496	250,000	240,182	219,145	206,122
Fire						
Medical assistance		89,329	86,129	80,484	76,601	70,851
Fires extinguished		6,372	5,060	14,696	14,816	14,714
Other services		16,310	19,035	10,870	10,786	10,689
Communities served		78	78	78	78	78
Probation						
Adults on probation	a	15,974	16,051	13,937	13,282	11,618
Juveniles in secure detention	b	343	322	310	367	355
Juveniles in treatment facilities	b	126	113	98	107	98
Juveniles in detention facilities	a	14,283	13,218	12,405	14,435	13,708
Waste Management						
Landfill tonnage		1,325,284	1,423,469	1,328,935	1,231,767	1,148,312
Recycling tonnage		3,048	3,758	2,619	2,850	2,066
County Library						
Total circulation - books		2,352,624	2,051,276	2,324,539	2,222,575	2,293,424
Reference questions answered		383,428	454,590	430,226	423,925	461,598
Patrons		2,352,403	2,433,646	2,226,360	1,447,505	1,621,147
Programs offered		4,546	2,353	2,274	3,759	3,588
Program attendance		80,100	84,994	45,605	68,437	61,921
Assessor-Clerk-Recorder						
Assessments		920,555	896,998	859,413	831,610	791,348
Official records recorded		957,123	1,082,688	1,039,166	1,019,271	794,257
Vital records copies issued		88,640	82,015	73,379	68,892	70,071
Official records copies issued		35,319	35,691	36,480	36,231	33,506
County Regional Medical Center						
Emergency room treatments		76,666	73,448	68,105	66,411	66,136
Emergency room services - MH		7,624	7,536	8,076	8,276	8,126
Clinic visits		123,479	106,943	109,568	113,171	118,477
Admissions		24,393	22,262	21,723	20,587	19,690
Patient days		112,138	105,203	96,820	92,643	91,114
Discharges		24,430	22,244	21,741	20,554	19,705
Community Health Agency						
Facilities inspections		31,760	32,000	40,642	38,105	36,546
Patient visits		139,885	123,843	135,539	125,936	123,230
Patient services		438,639	369,041	339,095	376,534	336,909
Animal impounds		27,362	29,206	20,467	21,307	21,661
Spays and neuters		5,645	5,806	2,401	3,080	2,372

Note:
a = Average monthly
b = Average daily
c = Unincorporated areas

Table 19

COUNTY OF RIVERSIDE
Operating Indicators by Function
Last Five Fiscal Years

Function/Program	Fiscal year 2007	2006	2005	2004	2003	
Public Social Services						
CalWORKs clients	20,336	19,880	20,846	20,296	19,908	
Food stamp clients	30,781	28,749	27,992	24,796	23,026	
Medi-Cal clients	105,578	108,887	110,994	105,598	99,332	
In-home support services	13,934	12,590	12,171	11,314	10,201	
Foster care placements	4,306	5,175	5,088	4,418	4,215	
Child welfare services	12,333	11,639	11,153	9,411	10,467	
Community Action Partnership						
Utility assistance (households)	13,337	10,944	11,783	12,846	14,706	
Weatherization (households)	465	801	795	711	857	
Energy education attendees	14,590	10,389	11,508	1,953	37,445	a
Disaster relief (residents)	13,551	8,605	1,514	-	-	b
Income tax returns prepared	1,384	2,651	-	-	-	b
After school programs (students)	10,905	537	51	271	51	
Homeless program (bed nights)	13,198	31,328	40,245	30,316	63,703	
Homeless program (meals)	26,396	142,578	372,048	170,937	453,238	
Leadership program enrollment	-	113	11	-	-	b
Registrar of Voters						
Voting precincts	1,368	976	2,012	1,574	2,087	
Polling places	610	486	1,090	815	1,136	
Voters	818,584	934,940	1,481,719	1,302,252	1,335,785	
Poll workers	2,696	1,908	4,675	3,306	4,668	
Agricultural Commissioner						
Export phytosanitary certificates	22,266	21,746	20,037	14,692	15,623	
Pesticide use inspections	840	1,199	1,105	1,366	1,257	
Weights and measures regulated	117,039	110,837	106,149	102,780	95,334	
Agriculture quality inspections	1,061	541	1,067	1,251	1,202	
Plant pest inspections	14,532	4,975	5,933	6,296	5,421	
Nursery acreage inspected	9,226	7,382	7,431	5,355	6,501	
TLMA - Building & Safety						
Building permits issued	5,786	10,232	9,980	10,452	10,106	
Building plans checked	5,151	8,759	8,251	9,128	8,776	
Building structures inspected	8,580	9,593	8,182	8,887	8,533	
Veterans' Services						
Phone inquiries answered	23,287	21,917	25,276	-	-	b
Client interviews	8,199	7,467	7,559	-	-	b
Claims filed	3,786	3,372	3,503	-	-	b

Notes:
a - Number of pamphlets mailed
b - Program not yet started / not tracked

Phytosanitary = Plant pest cleanliness
Pesticide Use Inspections = Environmental monitoring

Source: Various County Departments

Table 20

COUNTY OF RIVERSIDE
Capital Asset Statistics by Function
Last Five Fiscal Years

Function/Program	2007	2006	2005	2004	2003
Sheriff					
Patrol stations	10	10	10	10	10
Patrol vehicles	702	598	583	576	550
Fire					
Stations	49	48	48	48	48
Trucks	141	135	125	126	117
Waste Management					
Landfills	6	7	7	8	8
Capacity in tons	51,609,663	52,392,284	50,948,302	50,872,281	42,712,387
Parks and Recreation					
Regional parks	13	13	13	13	13
Historic sites	6	6	6	6	6
Nature centers	5	5	5	5	5
Archaeological sites	7	7	7	7	7
Wildlife reserves	16	16	16	16	16
County Libraries					
Branch libraries	29	29	29	28	27
Book mobiles	2	2	2	2	2
Books in collection	1,784,149	1,221,744	1,477,670	1,098,082	1,029,424
County Regional Medical Center					
Major clinics	4	4	4	4	4
Routine and specialty clinics	30	30	30	30	30
Beds licensed	439	439	439	439	439

(Column years are under the heading "Fiscal year".)

Source: Various County Departments

Special Acknowledgments

Our County's diverse history has continued to be enriched with the tremendous growth we have experienced over the past few decades. This year's Comprehensive Annual Financial Report theme of "Diversity" celebrates the people and cultures that make the County of Riverside unique. The photographs in this publication were requested to illustrate the value we place on diversity.

A special thanks to the following people for their contributions to this year's Comprehensive Annual Financial Report:

The entire staff of the General Accounting Division of the
Auditor-Controller's Office (ACO) for its dedication,
and the following ACO divisions for their contributions:
Internal Audits and Specialized Accounting Division
Payroll Division
Property Tax Division

All Riverside County Departments particularly the following:
Treasurer-Tax Collector Office
Executive Office
Printing Services
Human Resources

Photography and artistic design
M. Bernard Edmonds, I
Artistic Editor

The Photo Artist Network:

Susan Ahn	Robin Gray	Richard S. Paul
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Jewel Barber	Margaret Laney	Yolanda Sentner
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Ken Cox	Larry Montecino	Carol Smith
Alexander Cruz	Bob Moon	Constance St. Jean
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Melissa Eiselein	Frantz Nicoll	Robert Upton
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Eileen Fontes	Lynne O'Connell	Harold Wolff
Bob Forsythe	Ron Parks	Randy Wright

Additional photography by: Maria Chavez and Suzy Jackson

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

INDENTURE OF TRUST

Definitions

"Authority" means the Southwest Communities Financing Authority, a joint powers authority duly organized and existing under the laws of the State.

"Authorized Representative" means: (a) with respect to the Authority, its Chairperson, Vice Chairperson, Program Administrator, Controller, or Treasurer, or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chairperson, Vice Chairperson, Program Administrator, Controller, or Treasurer and filed with the County and the Trustee; and (b) with respect to the County, its Chairman of the Board of Supervisors, Vice Chairman, County Executive Officer, Deputy County Executive Officer or any other person designated as an Authorized Representative of the County by a Written Certificate of the County signed by its Chairman of the Board of Supervisors, Vice Chairman, County Executive Officer, Deputy County Executive Officer and filed with the Authority and the Trustee.

"Bond Counsel" means (a) Best Best & Krieger LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Fund" means the fund by that name established and held by the Trustee pursuant to Section 5.01.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

"Bond Year" means each twelve-month period extending from May 2 in one calendar year to May 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year shall commence on the Closing Date and extend to and include May 1, 2009.

"Book-Entry Depository" means DTC or any successor as Book-Entry Depository for the Bonds, appointed pursuant to Section 2.11.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee and its counsel, title insurance premiums, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.03.

"County" means the County of Riverside.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period; (b) the minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Events of Default" means any of the events specified in Section 7.01.

"Fair Market Value" means, with respect to any investment, the price at which a willing buyer would purchase such investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code; (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code; or (iii) the investment is a United States Treasury Security - State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

"Federal Securities" means:

(a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America;

(b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and

(c) 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 (i) which are rated, based on the escrow, in the highest rating category of S&P and Moody's or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraphs (a) or (b) above, which fund 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 (B) which fund 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 thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Indenture" means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the County, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the County; (b) does not have any substantial interest, direct or indirect, in the Authority or the County; and (c) is not connected with the Authority or the County as an officer or employee of the Authority or the County but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the County.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS Inc., 5250 77 Centre Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bonds Dept.; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to Section 5.08.

"Interest Account" means the account by that name established in the Bond Fund pursuant to Section 5.02.

"Interest Payment Date" means each May 1 and November 1 commencing May 1, 2009.

"Lease Agreement" means that certain Lease Agreement, dated as of November 1, 2008, by and between the Authority, as lessor, and the County, as lessee.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Net Proceeds" means all amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Premises, or the proceeds of any taking of the Leased

Premises or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

"Office" means with respect to the Trustee, the corporate trust office of the Trustee at 700 South Flower Street, Suite 500, Los Angeles, CA 90017, or at such other or additional offices as may be specified in writing to the Authority and the County, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Original Purchaser" means E. J. De La Rosa & Co., Inc. as the original purchasers of the Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding", when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.11) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions thereof) described in Section 11.11; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner", whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

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

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

a. Farmers Home Administration (FmHA)
Certificates of beneficial ownership

b. Federal Housing Administration Debentures (FHA)

c. General Services Administration
Participation certificates

d. Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GHMA - guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)

e. U.S. Maritime Administration
Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

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

a. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)

b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mae")
Participation Certificates (Mortgage-backed securities)
Senior debt obligations

c. Federal National Mortgage Association (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal).

d. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations

e. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

f. Farm Credit System
Consolidated systemwide bonds and notes

4. Money market funds registered under the Federal Investment Company of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2 including funds for which the Trustee or an affiliate advises or services.

5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. CD's must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks (which may include the Trustee and its affiliates) whose term obligations are rated "A-1" or better by S&P and "Prime-1" by Moody's.

The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits (which may include the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

7. Investment agreements with a domestic or foreign bank or corporation, the long-term debt or financial strength of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guarantee insurance company, financial strength, of the guarantor is rated in at least the “double A” category by Moody’s and S&P; provided, that, by the terms of the investment agreement:

a. interest payments are to be made to the Trustee at all times and in the amounts as necessary to pay debt service, or for the Reserve Account, applied as directed in Section 5.06 hereof (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice; the Issuer and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c. the investment agreement shall state that it is the unconditional and general obligation of; and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

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

e. the investment agreement shall provide that if during its term

(i) the provider’s rating by either S&P or Moody’s falls below “AA-” or “Aa3”, respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider’s books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) collateral free and clear of any third party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach); or (b) repay the principal of and accrued but unpaid interest on the investment (including such other amounts as are required to permit the Trustee to receive the initially contemplated yield through the term of the Agreement), or (c) assign its obligations thereunder to a financial counter-party, acceptable to the Issuer, and rated in the double A category by both Moody’s and S&P; and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Issuer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee; and

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

g. the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligation under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Issuer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate; and

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

8. Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest long-term rating categories assigned by such agencies unless such obligations are issued by the State, in which case such obligations are rated in one of the two highest long-term rating categories of S&P and Moody's.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" or better by S&P.

11. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the municipal entity and a dealer bank or securities firm.

(i) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by Standard & Poor's Ratings Group and Moody', or

(ii) Banks rated "A" or above by Standard & Poor's Ratings Group and Moody's Investor Services.

b. The written repo contract must include the following:

(i) Securities which are acceptable for transfer are:

(A) Direct U.S. governments.

(B) Federal agencies backed by the full faith and credit of the U.S. Government (and FNMA & FHLMC).

(ii) The term of the repo maybe up to 30 years.

(iii) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(iv) The trustee has perfected first priority security interest in the collateral.

(v) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

(vi) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the trustee to liquidate collateral.

(vii) Valuation of Collateral

(A) The securities must be valued weekly, marked-to-market at a current market price plus interest.

(B) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

12. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

13. County of Riverside Investment Pool.

14. State of California Local Agency Investment Fund (LAIF).

"Principal Account" means the account by that name established in the Bond Fund pursuant to Section 5.02.

"Project Fund" means the Project Fund established pursuant to Section 3.04 hereof.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to Section 5.07.

"Registration Books" means the records maintained by the Trustee pursuant to Section 2.05 for the registration and transfer of ownership of the Bonds.

"Representation Letter" means the letter of representations from the Authority to, or other instrument or agreement of the Authority with, a Book-Entry Depository in which the Authority, among other things, makes certain representations to such Depository with respect to the Bonds, the payment thereof and delivery of notices with respect thereto.

"Reserve Account" means the account by that name in the Bond Fund established pursuant to Section 5.02.

"Reserve Account Credit Facility" means any policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by S&P and Moody's and A.M. Best & Company (but only if such credit facility is rated by A.M. Best & Company).

"Reserve Requirement" means, as of the date of calculation, an amount equal to the lesser of (a) the maximum amount of annual Debt Service coming due and payable in the current or any future Bond Year; (b) 125% of average annual Debt Service on the Bonds; or (c) ten percent (10%) of initial outstanding principal amount of the Bonds.

"Revenues" means: (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any amounts payable under Section

4.08(d) of the Lease Agreement; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

"S&P" means Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc., its successors and assigns.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Atn. Call Notification Department, Fax (212) 855-7232 in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Serial Bonds" means the Bonds maturing on May 1 in each of the years 2011 through 2019, inclusive.

"Sinking Account" means the account by that name established and held by the Trustee pursuant to Section 5.02.

"State" means the State of California.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Tax Code" means the Internal Revenue Code of 1986, as amended.

"Tax Regulations" means temporary and permanent regulations promulgated under or with respect to Sections 103 and 141 through 150, inclusive, of the Tax Code.

"Term Bonds" means the Bonds maturing on May 1, 2024, May 1, 2028, May 1, 2033, and May 1, 2038.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee hereunder as provided in Section 8.01.

"Undertaking to Provide Continuing Disclosure" means, as applicable, that certain Certificate of the Authority or the County, as applicable, by that name and dated as of the Closing Date.

"Written Certificate", "Written Request" and "Written Requisition" of the Authority or the County mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the County by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Establishment and Application of Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund and within such Costs of Issuance Fund, the "Issuer's Costs of Issuance Sub-Account." The moneys in the Costs of Issuance Fund and the Issuer's Costs of Issuance Sub-Account shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the County or the Authority in a form acceptable to the Trustee stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Requisition of the County or Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On May 25, 2009, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Project Fund. Any funds remaining in the Issuer's Costs of Issuance Sub-Account on May 25, 2008, shall be returned to the Authority.

Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund to be known as the "Project Fund." The Trustee shall disburse moneys in the Project Fund from time to time upon receipt by the Trustee of a Written Requisition of the County, as agent of the Authority, which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Project Fund and has not previously been disbursed by the Trustee from amounts in the Project Fund, (v) that all conditions precedent set forth in the Lease Agreement with respect to such disbursement have been satisfied, and (vi) that the amount of such disbursement is to purchase additional property or to improve the Leased Premises; and (b) specifies in reasonable detail the nature of the obligation. Each such Written Requisition of the County or Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon the filing with the Trustee of a Written Certificate of the Authority stating that the construction of any Facilities or the acquisition of any additional property has been completed or that all Written Requisitions intended to be filed by the Authority have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Bond Fund. Any funds deposited into the Bond Fund shall cause a corresponding proportionate credit to Lease Payments due from the County.

Validity of Bonds

The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Lease Agreement. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

Pledge and Assignment; Bond Fund

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and any other amounts (excluding the following: 1) proceeds of the sale of the Bonds; 2) any amounts in the Costs of Issuance Fund; 3) any Miscellaneous Rent paid by the County to the Authority pursuant to Section 4.08 of the Lease Agreement; and 4) excess earnings amounts to be rebated from Authority to United States of America and any such amounts paid to Authority by County for rebate to United States of America pursuant to Section 6.07 of the Indenture and Section 5.11 of the Lease Agreement) held in any fund or account established pursuant to the Indenture are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Lease Agreement (other than the rights of the Authority under Sections 4.08, 7.03 and 8.03 thereof). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of Article VIII, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the County under the Lease Agreement.

Allocation of Revenues

On or before each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to Section 4.01(a).

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Sinking Account

All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(a).

Application of Reserve Account

(a) Generally. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to Section 4.01(a), when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefor pursuant to Article X, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the County as a refund of overpaid Additional Lease Payments.

If, on any date, moneys on deposit in the Reserve Account, together with amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Bonds, including all principal thereof and interest thereon, at the Written Request of the Authority the Trustee shall transfer all amounts then on deposit in the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of the Bonds in accordance with the provisions of Section 4.01(b). Any amounts remaining in the Reserve Account upon payment in full of all Outstanding Bonds, shall be withdrawn by the Trustee and paid to the County as a refund of overpaid Lease Payments. Any amounts on deposit in the Reserve Account on or before each Interest Payment Date in excess of the Reserve Requirement shall be transferred to the Rebate Fund. Nothing in this paragraph is intended or shall be construed to authorize or require the Trustee to draw amounts under the Reserve Account Credit Facility for the uses described in this paragraph.

(b) Reserve Account Credit Facility. The Reserve Requirement may be satisfied by crediting to the Reserve Account moneys and/or a Reserve Account Credit Facility which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Requirement. Upon the deposit with the Trustee of a Reserve Account Credit Facility, the Trustee shall transfer moneys then on hand in the Reserve Account in excess of the Reserve Requirement (after giving effect to the Reserve Account Credit Facility) to the Authority to be applied for any lawful purpose. In the event any such Reserve Account Credit Facility is so acquired, the Trustee shall draw on it in accordance with its terms when and if moneys are needed pursuant to the provisions of subsection (a);

The Authority shall notify the Rating Agencies upon the deposit with the Trustee of a Reserve Account Credit Facility. Such Reserve Account Credit Facility shall have a term commensurate with the final maturity of the Bonds. Upon a down-grade of the Reserve Account Facility Provider or other termination of the Reserve Account Credit Facility, the Authority shall substitute the Reserve Account Credit Facility with cash in the amount of the Reserve Requirement or a Substitute Reserve Account Credit Facility meeting the criteria established hereunder.

Notwithstanding any other provisions of the Indenture, any amounts invested in Permitted Investments in the Reserve Account shall (a) be valued at fair market value and marked to market on each Lease Payment Date and (b) not have a maturity outstanding beyond five years unless such investment is redeemable at par for payment of debt service on the Bonds.

Application of Redemption Fund

When required the Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of on the Bonds to be redeemed pursuant to Sections 4.01(b) or (c); provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the Authority received prior to the selection of Bonds for redemption, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Insurance and Condemnation Fund

(a) Establishment of Fund. Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Leased Premises, the Trustee shall establish and maintain a separate Insurance and Condemnation Fund, to be held and applied as hereinafter set forth in this Section 5.08.

(b) Application of Insurance Proceeds. Any proceeds of insurance against accident to or destruction of the Facilities collected by the County in the event of any such accident or destruction shall be applied in accordance with Section 6.02(a) of the Lease Agreement. The County shall cause any such proceeds to be paid to the Trustee for deposit in the Insurance and Condemnation Fund. If the County fails to determine and notify the Trustee in writing of its determination, within forty-five (45) days following the date of such deposit, to replace, repair, restore, modify or improve the Facilities, then such proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds pursuant to Section 4.01(c); provided, however, that such redemption will occur only if the fair rental value of the remaining portion of the Leased Premises is sufficient to allow the County to continue to make Lease Payments in amounts sufficient to pay debt service on the Bonds that remain Outstanding after such redemption. Notwithstanding the foregoing sentence, however, in the event of damage or destruction of the Facilities in full, the proceeds of such insurance shall be used by the County to rebuild or replace the Facilities if such proceeds are not sufficient, together with other available funds then held by the Trustee, to redeem all of the Outstanding Bonds. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Facilities by the County, upon receipt of Written Requisitions of the County as agent for the Authority (i) stating with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal; (ii) specifying in reasonable detail the nature of the obligation; and (iii) accompanied by a bill or a statement of account for such obligation. Each such Written Requisition of the County or Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Any balance of the proceeds remaining after such work has been completed as certified by the County as agent for the Authority shall be paid to the County.

(c) Application of Eminent Domain Proceeds. If all or any part of the Leased Premises shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the proceeds therefrom shall be applied in accordance with Section 6.02(b) of the Lease Agreement. The County shall cause any such proceeds to be paid to the Trustee for deposit in the Insurance and Condemnation Fund, to be applied and disbursed by the Trustee as follows:

(i) If the County has not given written notice to the Trustee, within forty-five (45) days following the date on which such proceeds are deposited with the Trustee, of its determination that such proceeds are needed for the replacement of the Leased Premises or such portion thereof, the Trustee shall transfer such proceeds to the Redemption Fund to be applied towards the redemption of the Bonds pursuant to Section 4.01(c).

(ii) If the County has given written notice to the Trustee, within forty-five (45) days following the date on which such proceeds are deposited with the Trustee, of its determination that such proceeds are needed for replacement of the Leased Premises or such portion thereof, the Trustee shall pay to the County, or to its order, from said proceeds such amounts as the County may expend for such replacement, upon the filing of Written Requisitions of the County as agent for the Authority in the form and containing the provisions set forth in subsection (b) of this Section 5.08 and upon which the Trustee may conclusively rely.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which Written Request shall certify that the investments constitute Permitted Investments). In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (g) of the definition thereof. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, except that interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee, or an affiliate, may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.09. Permitted Investments that are registered securities shall be registered in the name of the Trustee.

The Authority covenants that all investments of amounts deposited in any fund or account created-by or pursuant to the Indenture, or otherwise containing proceeds of the Bonds, shall be acquired and disposed of at the Fair Market Value thereof.

The Authority and the County acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the County, the right to receive brokerage confirmations of security transactions as they occur, the Authority and the County specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the County periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Valuation and Disposition of Investments

For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund or account shall be valued at the Fair Market Value thereof; provided, however, that investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and investments in the Reserve Account shall be valued at their present value (within the meaning of Section 148 of the Tax Code), consisting generally of the cost thereof. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority.

Rebate Fund

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the “Rebate Fund” (herein called the “Rebate Fund”). Within the Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Authority as shall be necessary in order to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and no other person shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section 5.12, by Section 6.07 hereof and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Authority, including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder in the absence of written directions by the Authority, and shall have no liability or responsibility to enforce compliance by the Authority or the County with the terms of the Tax Certificate.

(b) Upon the Authority's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Authority if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the amount of rebate to be paid to the United States of America. Computations of such rebate amount shall be prepared by the Authority at the expense of the Authority in accordance with the Tax Certificate.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 5.12 other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by or on behalf of the Authority.

(d) The Trustee shall invest all amounts held in the Rebate Fund in Permitted Investments as instructed in writing by the Authority, which instructions shall comply with the restrictions set forth in the Tax Certificate and Section 6.07 of the Indenture. Money shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) The Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as directed in writing by the Authority. In addition, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by written directions from the Authority. Any funds remaining in the Rebate Fund after redemption or payment of all of the Bonds and payment and satisfaction of any amount of rebate to be paid, or provision made therefor satisfactory to the Trustee shall be withdrawn and remitted to the Authority upon the Authority's written request after having first paid any unreimbursed amounts owing Trustee of any amounts due under the Lease Agreement or the Indenture.

(f) Notwithstanding any other provision of the Indenture, the obligation to remit the rebate amounts to the United States of America and to comply with all other requirements of this Section 5.12, Section 6.07 hereof and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

PARTICULAR COVENANTS

Punctual Payment

The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section 6.02 shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whosoever.

Accounting Records and Financial Statements

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, and the County, during business hours, upon reasonable notice, and under reasonable circumstances. The Trustee shall deliver a monthly account of the funds and accounts hereunder to the Authority, provided that the Trustee shall not be obligated to deliver any accounting of any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Additional Obligations

The Authority may issue additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part pursuant to Section 9.01(b)(v) hereof, for purposes of completing or expanding the Facilities, so long as no Event of Default hereunder has occurred and is continuing and provided that the conditions of Section 8.03(v) of the Lease Agreement have been satisfied.

Tax Covenants

(a) The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(b) The Authority covenants and agrees that it will not make or permit any use of the proceeds of the Bonds or other funds of the Authority which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, and further covenants that it will observe and not violate the requirements of Sections 145 and 148 of the Code. The Trustee shall be entitled to receive and to rely upon a Counsel's Opinion as to the conformity of any use or proposed use of the proceeds of the Bonds with the requirements of said Sections 145 and 148 of the Code.

(c) The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(d) The Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

(e) The Authority covenants that, from the proceeds of the Bonds and investment earnings thereon, an amount not in excess of two percent (2%) of the proceeds of the Bonds will be used for costs of issuance of the Bonds, all within the meaning of Section 147(g)(1) of the Code. For this purpose, if the fees of the original purchaser of the Bonds are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

(f) Notwithstanding any provision of this Section, if the Authority shall provide to the Trustee, an opinion of Bond Counsel that any action required under Section 5.12 or this Section 6.07 is no longer required, or that some further action is required to maintain the Tax-exempt status of interest on the Bonds, the Trustee and the Authority may rely conclusively on such opinion in complying with the requirements of this Section, and the covenants contained herein shall be deemed to be modified to that extent.

(g) The Facilities are a property of the character subject to the allowance for depreciation under Section 167 of the Code.

Lease Agreement

The Trustee shall promptly collect all amounts due from the County pursuant to the Lease Agreement. Subject to the provisions of Article VIII, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the County under the Lease Agreement.

Payment

Notwithstanding any dispute between the Authority and the Trustee, the Authority will make all payments on the Bonds when due and will not withhold any payments on the Bonds pending the final resolution of such dispute or for any other reason whatsoever. The Authority's obligation to make payments on the Bonds in the amount and on the terms and conditions specified hereunder will be absolute and unconditional without any right of set off or counterclaim, subject only to the provisions relating to abatement pursuant to the Lease Agreement.

Further Assurances

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming the rights and benefits provided in the Indenture to the Bond Owners.

Leased Premises

If an event of abatement occurs pursuant to Section 6.03 of the Lease Agreement, the County shall use its best efforts to the extent permissible under the laws of the State of California to make all lease payments in excess of the amount of rental interruption insurance, if necessary, in order to ensure the reconstruction, repair, restoration, modification or improvement of the Leased Premises; provided, however, that the County shall not be required to repair or replace any such portion of the Leased Premises pursuant to this Section 6.11 if Proceeds or other legally available funds sufficient to prepay shall be applied to the redemption of Bonds (i) all of the Bonds Outstanding or (ii) any portion thereof relating to the Leased Premises or such portion thereof and the Lease Payments allocable to the remaining portion of the Leased Premises equals the pro-rata portion of Lease Payments allocable to the Bonds Outstanding after such redemption.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such sixty (60) day period, such default shall not constitute an Event of Default hereunder if the Authority shall commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Lease Agreement.

No Acceleration Upon Event of Default

If any Event of Default shall occur there shall be no right on the part of the Trustee or the Bondholders to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately.

Application of Revenues and Other Funds After Default

Notwithstanding anything to the contrary contained herein, if an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First. To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second. To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners

The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue

Notwithstanding any other provision hereof, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Lease Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Lease Agreement or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in Section 7.06 or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee

(a) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied duties or covenants shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and the Authority shall remove the Trustee if at any time requested to do so by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the

Trustee shall cease to be eligible in accordance with subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and the County and thereupon shall appoint a successor Trustee by an instrument in writing. Any such removal shall be made upon at least thirty (30) days' prior written notice to the Trustee. Upon giving such written notice of removal the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority, to the County, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that no removal resignation or termination of the Trustee shall take effect until a successor shall be appointed. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the Authority shall, and the Trustee may, petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Authority shall mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts hereunder to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee appointed under the Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation or association included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least Seventy-Five Million Dollars ($75,000,000), and subject to supervision or examination by federal or State agency, so long as any Bonds are Outstanding. If such corporation or association publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining agency above referred to then for the purpose of this subsection (e), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Merger or Consolidation

Any bank, association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, association or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, association or trust company shall be eligible under subsection (e) of Section 8.01 shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Liability of Trustee

(a) The recitals of facts herein and in the Bonds contained shall not be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the Bonds or the Lease Agreement, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder, or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Office. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the County of any of the terms, conditions, covenants or agreements herein, under the Lease Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the County and the Authority of the terms, conditions, covenants or agreements set forth in the Lease Agreement, other than the covenants of the County to make Additional Lease Payments to the Trustee when due and to file with the Trustee, when due, such reports and certifications as the County is required to file with the Trustee thereunder.

(f) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it is not assured to its satisfaction that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of the Indenture and the Lease Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of Section 8.01(a), this Section 8.03 and Section 8.04 hereof.

(j) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the County of the Leased Premises. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease Agreement or the Indenture for the existence, furnishing or use of the Leased Premises.

(l) The Trustee may establish such funds and accounts hereunder as it deems necessary or appropriate to perform its obligations hereunder.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or County elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the County agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

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

Right to Rely on Documents

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

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the Authority or the County, and such Written Certificate, Written Request or Written Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, Written Request or Written Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of the Indenture shall be retained in their respective possession and shall be subject at all reasonable times to the inspection of the Authority, the County and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification

The Authority shall pay to the Trustee (solely from Miscellaneous Rent) from time to time the compensation for all services rendered under the Indenture and also all reasonable expenses and disbursements, incurred in and about the performance of its powers and duties under the Indenture.

To the extent permitted by law, the Authority shall indemnify, defend and hold harmless the Trustee and its officers, directors, agents and employees, against any loss, liability or expense (including legal fees and expenses) incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the Authority under this Section 8.06 shall survive the discharge of the Bonds and the Indenture and the resignation or removal of the Trustee.

MODIFICATION OR AMENDMENT HEREOF

Amendments Permitted

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into with the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the

Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Tax Code; or

(v) to facilitate the issuance of additional bonds of the Authority secured by Lease Payments of the County pursuant to Section 8.03(v) of the Lease Agreement.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee’s own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

(e) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture pursuant to Article IX, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds

The provisions of Article IX shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

DEFEASANCE

Discharge of Indenture

Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable hereunder by the Authority:

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

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

If the Authority shall also pay or cause to be paid all other sums payable hereunder by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the County all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Sections 10.04 and 10.05.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Trustee

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the County, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

Unclaimed Funds

Notwithstanding any provisions of the Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of such Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when such Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture upon receipt of a Written Request of the Authority, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided/ however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the County) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any legally available funds of the Authority which may be made available to it for such purposes.

Limitation of Rights to Parties and Bond Owners

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the County and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the County and the Owners of the Bonds.

Funds and Accounts

Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05 and for the protection of the security of the Bonds and the rights of every Owner thereof.

Waiver of Notice; Requirement of Mailed Notice

Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds

Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds as may be allowed by law, and deliver a certificate of such destruction to the Authority upon its request.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the County, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the County or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee’s right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the County or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Authority and the County shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

Money Held for Particular Bonds

The money held by the Trustee for the payment of the interest or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof but without any liability for interest thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Benefit of Parties

Nothing in the Indenture 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 Authority, the County, the Trustee and the registered Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the County, the Trustee and the registered Owners of the Bonds.

Successor Is Deemed Included in All References to Predecessor

Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

LEASE AGREEMENT

Definitions

"AFV Lease" means the Amended and Restated Site Lease Agreement, dated December 28, 2006, by and between AFV and Elsinore Valley Municipal Water District and as amended by that First Amendment to Amended and Restated Site Lease between the Elsinore Valley Municipal Water District and AFV.

"Event of Default" means any of the events of default defined as such in Section 9.01.

"Facilities" means all of the buildings, improvements and related infrastructure necessary for the operation of an animal shelter of approximately 32,000 square feet at any time situated on the Site and described in any amendment to the Lease Agreement hereto and by this reference incorporated herein.

"Fiscal Year" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period established by the County as its fiscal year pursuant to written notice filed with the Authority and the Trustee.

"Ground Lease" means the Ground Lease Agreement, dated as of the date hereof, by and between the AFV, as lessor, and the Authority, as lessee.

"Hazardous Substance" means any substance, pollutant or contamination included in such (or any similar) term under any federal, state or local statute, law, ordinance, code or regulation now in effect or hereafter enacted or amended.

"Lease Payment Date" means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

"Lease Payments" means the amounts payable by the County pursuant to Section 4.03(a), including any prepayment thereof pursuant hereto and including any amounts payable upon a delinquency in the payment thereof.

"Leased Premises" means the Site and Facilities described herein.

"Member Agencies" means the County of Riverside, the City of Lake Elsinore, the City of Canyon Lake, the City of Temecula, and the City of Murrieta, or such other local agencies which may at any time become members to the Authority.

"Memorandum of Understanding" means that Memorandum of Understanding dated February 3, 2006 by and between AFV and the Authority.

"Miscellaneous Rent" means the amounts of additional rent which are payable by the County pursuant to Section 4.08.

"Operations Agreement" means the Animal Shelter Operations Agreement to be entered by and among AFV, the Authority and the County.

"Permitted Encumbrances" means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the County may permit to remain unpaid pursuant to Article V; (b) the AFV Lease; (c) the Ground Lease; (d) the Lease Agreement, the Indenture and any other agreement or other document contemplated hereunder to be recorded against the Site; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (f) unrecorded Lease of AFV to the Chamber of Commerce of Wildomar; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the County certifies in writing will not materially impair the use of the Site for their intended purposes.

"Site" means the real property described in Exhibit A attached hereto.

"Term" means the time during which the Lease Agreement and the Ground Lease are in effect, as provided in Section 4.02.

"Trustee" means The Bank of New York Mellon Trust Company, N.A. or any successor thereto acting as Trustee pursuant to the Indenture.

Representations, Covenants and Warranties of the County

The County makes the following covenants, representations and warranties to the Authority as of the date of the execution and delivery of the Lease Agreement:

(a) Due Organization and Existence. The County is a division of the State duly organized and validly existing under the laws of the State, has full legal right, power and authority under the laws of the State to enter into the Lease Agreement and to carry out and consummate all transactions contemplated hereby and thereby, and by proper action the County has duly authorized the execution and delivery of the Lease Agreement.

(b) Due Execution. The representatives of the County executing the Lease Agreement have been fully authorized to execute the same pursuant to a resolution duly adopted by the Board of Supervisors of the County.

(c) Valid, Binding and Enforceable Obligations; Defense of Rights. The Lease Agreement has been duly authorized, executed and delivered by the County, and if properly executed by the parties to it, constitutes the legal, valid and binding agreement of the County enforceable against the County in accordance with the terms hereof subject to bankruptcy, insolvency, reorganization or other similar laws, affecting the enforcement of creditors' right in general and by general equity principles. The County further acknowledges that EVMWD has approved the County's execution and delivery of the Lease Agreement and the Ground Lease pursuant to the provisions of the AFV Lease. The County hereby covenants to defend all of its rights under the Lease, the Ground Lease and the AFV Lease.

(d) No Conflicts. The execution and delivery of the Lease Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the County is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the County, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the financial condition, assets, properties or operations of the County.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the County or of the voters of the County, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement, or the consummation of any transaction herein contemplated, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the County after reasonable investigation, threatened against or affecting the County or the assets, properties or operations of the County which, if determined adversely to the County or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease Agreement, or upon the financial condition, assets, properties or operations of the County, and the County is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the financial conditions, assets, properties or operations of the County.

(g) Use of Leased Premises; Essentiality. The Leased Premises shall be used solely for the purpose of providing an animal shelter facility. The Leased Premises constitute property that is essential to carrying out the governmental functions of the County.

Representations, Covenants and Warranties of Authority

The Authority makes the following covenants, representations and warranties to the County as of the date of the execution and delivery of the Lease Agreement:

(a) Due Organization and Existence. The Authority is a joint powers authority duly organized and existing under and by virtue of the laws of the State; has power to enter into the Lease Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

(b) Due Execution. The representatives of the Authority executing the Lease Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.

(c) Valid Binding and Enforceable Obligations; Defense of Rights. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms subject to bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' right in general and by general equity principles. The Authority further covenants that EVMWD has approved the Authority's execution and delivery of the Ground Lease and the Lease Agreement pursuant to the provisions of the AFV Lease. The Authority hereby covenants to defend all of its rights under the Lease Agreement, the Ground Lease and the AFV Lease.

(d) No Conflicts. The execution and delivery of the Lease Agreement and the Indenture, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement or the Indenture, or the consummation of any transaction herein or therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

Lease by Authority and Lease to County

(a) For consideration described therein, AFV has leased to the Authority, pursuant to the Ground Lease, the Site for the Term stated therein, plus one week following the end of the Term of the Ground Lease.

(b) The Authority hereby leases the Leased Premises to the County, and the County hereby leases the Leased Premises from the Authority, upon the terms and conditions set forth in the Lease Agreement.

(c) The County hereby takes possession of the Leased Premises on the Closing Date.

(d) Following the Closing Date the Authority and the County shall commence construction of the Facilities pursuant to the terms of the Agency Agreement.

Term of Lease Agreement

The Term of the Lease Agreement shall commence on November 1, 2008 and shall end on May 1, 2038, unless such term is extended as hereinafter provided or unless Lease Payments have been paid or prepaid in full or provision shall have been made for such payment pursuant to Section 4.03(g) hereof. If on May 1, 2038, the Indenture shall not be discharged by its terms or if the Lease Payments payable hereunder shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until the earlier of May 1, 2048, or the date the Indenture shall be discharged by its terms. If prior to May 1, 2038, the Indenture shall be discharged by its terms and any amounts then owed to the Trustee have been paid in full, the Term of the Lease Agreement shall thereupon end.

Lease Payments; Security Deposit

(a) Obligation to Pay. In consideration of the lease by the Authority of the Site and in consideration of the issuance of the Bonds by the Authority for the purpose of constructing the Facilities, and subject to the provisions of Sections 6.01 and 6.03, the County agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Leased Premises during each Fiscal Year, the Lease Payments (denominated into components of principal and interest) for the Leased Premises in the respective amounts specified in Exhibit B hereto, to be due and payable on the fifteenth day prior to each respective Interest Payment Date specified in Exhibit B hereto. Any amount held in the Bond Fund (but not including any amounts on deposit in the Reserve Fund), the Interest Account, the Sinking Account or the Principal Account (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to Section 4.05) on any Lease Payment Date shall be credited towards the Lease Payment then due and payable as permitted under the Indenture. The Lease Payments coming due and payable in any Fiscal Year shall be for the use of the Leased Premises for such Fiscal Year.

(b) Effect of Prepayment. In the event that the County prepays all Lease Payments in full pursuant to Section 4.05, the County's obligations under the Lease Agreement shall thereupon cease and terminate, including but not limited to the County's obligation to pay Lease Payments under this Section 4.03. In the event that the County prepays the Lease Payments in part but not in whole pursuant to Section 4.05, the Authority shall provide, or cause to be provided, to the Trustee and the County a revised schedule of Lease Payments due after such partial prepayment, which revised schedule of Lease Payments shall be sufficient to provide for the scheduled payment of remaining principal of and interest on the Bonds, and which schedule shall represent an adjustment to the schedule of Lease Payments set forth in Exhibit B hereto after taking into account said partial prepayment.

(c) Rate on Overdue Payments. In the event the County should fail to make any of the payments required in this Section 4.03, the payment in default shall continue as an obligation of the County until the amount in default shall have been fully paid, and the County agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate per annum equal to the average interest rate on the Bonds. Such interest, if received, shall be deposited in the Bond Fund.

(d) Fair Rental Value. The Lease Payments and Miscellaneous Rent coming due and payable hereunder in each Fiscal Year shall constitute the total rent for the Leased Premises for each Fiscal Year and shall be paid by the County in each Fiscal Year for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Leased Premises during each Fiscal Year. The parties hereto have agreed and determined that the total amount of such Lease Payments and Miscellaneous Rent for the Leased Premises do not exceed the fair rental value of the Leased Premises. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Leased Premises and the benefits therefrom which will accrue to the County and the general public.

(e) Source of Payments; Budget and Appropriation. The Lease Payments shall be payable from any source of available funds of the County, subject to the provisions of Sections 6.01 and 6.03. The County covenants to take such action as may be necessary to include all Lease Payments and Miscellaneous Rent due hereunder in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease

Payments and Miscellaneous Rent. The covenants on the part of the County herein contained shall be deemed to be and shall be deemed duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the County.

The County and the Authority understand and intend that the obligation of the County to pay Lease Payments and other payments hereunder constitutes a current expense of the County and shall not in any way be construed to be a debt of the County in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the County, nor shall anything contained herein constitute a pledge of the general tax revenues, funds or moneys of the County. Lease Payments due hereunder shall be payable only from current funds which are budgeted and appropriated, or otherwise legally available, for the purpose of paying Lease Payments or other payments due hereunder as consideration for use of the Leased Premises during the Fiscal Year for which such funds were budgeted and appropriated or otherwise made legally available for such purpose. The Lease Agreement shall not create an immediate indebtedness for any aggregate payments which may become due hereunder. The County has not pledged the full faith and credit of the County, the State or any agency or department thereof to the payment of the Lease Payments or any other payments due hereunder, the Bonds or the interest thereon.

(f) Assignment. The County understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the County hereby assents to such assignment. The Authority hereby directs the County, and the County hereby agrees, to pay all of the Lease Payments to the Trustee at its Office.

(g) Security Deposit. Notwithstanding any other provision of the Lease Agreement, the County may on any date secure the payment of the Lease Payments in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts, is either (i) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the related Lease Payment schedule set forth in Exhibit B, or (ii) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due hereunder or on any optional prepayment date pursuant to Section 4.05, as the County shall instruct at the time of said deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement. In connection with the making of any such security deposit, the Authority shall take, and shall cause the Trustee to take, any actions necessary to remove the appropriate portions of the Leased Premises from the lien of the Lease Agreement.

(h) Delinquent Lease Payments. Any delinquent Lease Payment shall be made to the Trustee for application as set forth in the Indenture.

Optional Right to Purchase

The County will have the exclusive right and option, which will be irrevocable during the Term of the Lease, to purchase all or any designated portion of the Authority's interest in the Facilities on any Business Day, upon payment of the Option Price (as hereinafter defined) and all other amounts of miscellaneous rent then due and payable by the County to the Authority and Trustee under the Lease Agreement and under the Indenture but only if the County is not in default under the Lease or the Indenture.

The option price in any Lease Year shall be determined by reference to Exhibit C to the Lease (the "Option Price"). The County will exercise its option to purchase by giving notice thereof to the Authority and the Trustee not later than 35 days prior to the Business Day on which it desires to purchase the Facilities, unless the Business Day on which the County intends to exercise its option is, in accordance with the terms of the Indenture, a date on which Bonds are subject to optional redemption, in which case the County will give notice to the Authority and the Trustee of its intention to exercise its option no later than 35 days prior to the Business Day on which it desires to purchase the Facilities.

If the Business Date on which the County intends to exercise its option is, in accordance with the terms of the Indenture, a date on which Bonds are subject to optional redemption, 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 Lease Payments due on such date.

If the Business Day on which the County intends to exercise its option is not a date on which Bonds are subject to optional redemption pursuant to the terms of the Indenture, then the Option Price will be payable in installments. Each such installment, all as determined by reference to Exhibit B to the Lease Agreement, (i) will be payable at each time at which a payment of Lease Payments would have been payable and such option not been exercised until the due date of the final installment and (ii) will equal the principal amount of each Lease Payments referred to in clause (i) above; provided however, that the final installment will be payable on the first date on which Bonds are subject to optional redemption pursuant to the terms of the Indenture and will in an amount equal to the Option Price on such date. Each such Lease installment will bear interest until paid at the rate equal to the rate which would have been payable with respect to the payments of Lease Payments 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 Indenture 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 Lease Payment, 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.

Quiet Enjoyment

During the Term of the Lease Agreement, the Authority shall provide the County with quiet use and enjoyment of the Leased Premises, and the County shall, during such Term, peaceably and quietly have and hold and enjoy the Leased Premises without suit, trouble or hindrance from the Authority, except as expressly set forth in the Lease Agreement. The Authority will, at the request of the County and at the County's cost, join in any legal action in which the County asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority shall have the right to inspect the Leased Premises as provided in Section 7.02.

Title

During the Term of the Lease Agreement, the Authority shall hold a leasehold in the Leased Premises, and in any and all additions which comprise fixtures, repairs, replacements or modifications to the Leased Premises, except for those fixtures, repairs, replacements or modifications which are added to the Leased Premises by the County at its own expense and which may be removed without damaging the Leased Premises and except for any items added to the Leased Premises by the County pursuant to the Lease Agreement. All right, title and interest of the Authority in and to the Leased Premises shall be transferred to and vested in AFV upon the occurrence of the following: (a) the County pays all of the Lease Payments and Miscellaneous Rent during the Term of the Lease Agreement as the same become due and payable, or if the County posts a security deposit for payment of the Lease Payments pursuant to Section 4.03(g) or prepays the Lease Payments pursuant to Section 4.05, and (b) if the County has paid in full all of the Miscellaneous Rent coming due and payable as of the date of such prepayment; and provided in any event that no Event of Default shall have occurred and be continuing. The Authority agrees to take any and all steps and execute and record any and all documents reasonably required by AFV to consummate any such transfer of title.

Miscellaneous Rent

In addition to the Lease Payments, the County shall pay when due the following items of Miscellaneous Rent:

(a) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Premises as and when the same become due and payable;

(b) all reasonable compensation and indemnification to the Trustee pursuant to Section 8.06 of the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

(c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Indenture; and

(d) the reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including but not limited to amounts payable pursuant to Section 5.11 and including, but not limited to, any and all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of the Lease Agreement.

Substitution or Release of Leased Premises

The County shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land, facilities or improvements (the “Substitute Leased Premises”) for the Leased Premises or any portion thereof (the “Former Leased Premises”) or to release a portion of the Leased Premises (the

“Released Premises”) from the lien of the Lease Agreement, provided that the County shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution or release:

(a) The County shall provide written notification of such substitution or release to the Trustee and Rating Agencies, which notice shall contain the certification that all conditions set forth in this Section 4.09 are met with respect to such substitution or release.

(b) The County shall take all actions and shall execute all documents required to subject the Substitute Leased Premises to the terms and provisions of the Lease Agreement, including the filing with the Authority and the Trustee an amended Exhibit A which adds thereto a description of the Substitute Leased Premises and deletes therefrom the description of the Former Leased Premises or the Released Premises, as applicable.

(c) (i) In the case of a substitution, the County shall determine and certify in writing to the Authority and the Trustee that the fair rental value of the Substitute Leased Premises is at least equal to the fair rental value of the Former Leased Premises and that the Substitute Leased Premises is essential to the governmental functions of the County.

(ii) In the case of a release, the County shall determine and certify to the Authority and the Trustee that the fair rental value of the remaining Leased Premises after removal of the Released Premises is at least equal to the then remaining Lease Payments.

(d) In the case of a substitution, the County shall certify in writing to the Authority and the Trustee that the Substitute Leased Premises serve the public purposes of the County and constitute property which the County is permitted to lease under the laws of the State.

(e) In the case of a substitution, the County shall certify in writing to the Authority and the Trustee that the estimated useful life of the Substitute Leased Premises at least extends to the date on which the final Lease Payment becomes due and payable hereunder.

(f) In the case of a substitution, the County shall obtain a CLTA policy of title insurance meeting the requirements of Section 5.06 with respect to any real property portion of the Substitute Leased Premises.

(g) In the case of a substitution, the substitution of the Substitute Leased Premises shall not cause the County to violate any of its covenants, representations and warranties made herein.

(h) The County shall obtain and cause to be filed with the Trustee and the Authority an opinion of Bond Counsel stating that such substitution or release is permitted hereunder and does not cause interest on the Bonds to become includable in the gross income of the Bond Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such substitution or release are satisfied, the Term of the Lease Agreement shall cease with respect to the Former Leased Premises or Released Premises, as applicable, and shall be continued with respect to the Substitute Leased Premises and the remaining Leased Premises and all references herein to the Former Leased Premises shall apply with full force and effect to the Substitute Leased Premises. The County shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Premises, all improvement, repair and maintenance of the Leased Premises shall be the responsibility of the County and the County shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Premises which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the County or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Authority agrees to provide only the Leased Premises, as hereinbefore more specifically set forth. The County waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the County under the terms of the Lease Agreement.

The County shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the County affecting the Leased Premises or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The County may, at the County's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the County that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Leased Premises will be materially endangered or the Leased Premises or any part thereof will be subject to loss or forfeiture, in which event the County shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Modification of Leased Premises

The County shall, at its own expense, have the right to make additions, modifications and improvements to the Facilities subject to the reasonable review and approval by the Authority. All additions, modifications and improvements to the Facilities shall thereafter comprise part of the Facilities and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall be consistent with the use of the Facilities as an animal shelter and shall not in any way damage the Facilities or cause the Facilities to be used for purposes other than those authorized under the provisions of State and federal law, and shall not violate the terms of the AFV Lease; and the County shall file with the Trustee and the Authority a Certificate stating that, upon completion of any additions, modifications and improvements made thereto pursuant to this Section 5.02, the Leased Premises shall be of a value which is not substantially less than the value of the Leased Premises immediately prior to the making of such additions, modifications and improvements. The County will not permit any mechanic's or other lien to be established or remain against the Leased Premises for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the County pursuant to this Section 5.02; provided that if any such lien is established and the County shall first notify or cause to be notified the Authority of the County's intention to do so, the County may in good faith contest any lien filed or established against the Leased Premises, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the County.

Public Liability and Property Damage Insurance

The County shall maintain or cause to be maintained throughout the Term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the County, a standard comprehensive general insurance policy or policies in protection of the Authority, County, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $100,000 (subject to a deductible clause of not to exceed $25,000) of damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy or policies in the amount of $3,000,000 covering all such risks. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the County shall deem adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the County, and may be maintained in whole or in part in the form of self-insurance by the County, subject to the provisions of Section 5.07, or in the form of the participation by the County in a joint powers agency or other program providing pooled insurance. In the case of the County's self-insurance of public liability and workers' compensation, the County may maintain a self-insured retention, and pay up to $500,000 of each liability claim and up to $300,000 of each worker's compensation claim, so long as the provisions of Section 5.07(b) hereof have been met. The proceeds of such liability insurance shall be applied by the County toward extinguishment or satisfaction of the liability with respect to which paid.

Casualty Insurance

The County shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any Facilities by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance, shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the judgment of the County's risk manager. Such insurance shall be in an amount at least equal to the lesser of (a) one hundred percent (100%) of the replacement cost of the Facilities; or (b) the aggregate unpaid principal components of the Lease Payments allocable to the Facilities. Such insurance may be subject to such deductibles as the County shall deem prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the County, and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance. The Net Proceeds of such insurance shall be applied as provided in Section 6.02(a).

Each policy of insurance to be maintained by the County pursuant to this Section 5.04 shall (a) provide for the full payment of insurance proceeds up to the applicable dollar limit in connection with damage to the Leased Premises and Facilities and shall, under no circumstances, be contingent upon the degree of damage sustained at other facilities owned or leased by the County; and (b) explicitly waive any co-insurance penalty.

Rental Interruption Insurance

The County shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any Facilities on the Leased Premises, as a result of any of the hazards covered by the insurance required by Section 5.04, in an amount at least equal to the maximum Lease Payments allocable to the Facilities coming due and payable during any future twenty-four (24) month period. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the County, and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance. The proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Bond Fund, and shall be applied for the uses and purposes set forth in Article V of the Indenture.

Recordation Hereof; Title Insurance

On or before the Closing Date the County shall, at its expense, (a) cause the Lease Agreement, or a memorandum hereof in form and substance approved by Bond Counsel, to be recorded in the office of the Riverside County Recorder; and (b) obtain a CLTA policy of title insurance insuring the County's leasehold estate hereunder, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under said policy shall be deposited with the Trustee in the Redemption Fund and shall be applied to the redemption of the Bonds pursuant to Section 4.01(c) of the Indenture.

Net Proceeds of Insurance; Form of Policies

(a) Each policy of insurance maintained pursuant to Sections 5.04, 5.05 and 5.06 shall name the Trustee as loss payee so as to provide that all proceeds thereunder shall be payable to the Trustee and shall name the Authority, the County and the Trustee as insureds. The County shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All such policies shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency or amount of any insurance or self-insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The County shall cause to be delivered to the Trustee annually, no later than December 1 in each year, a certificate stating that all of the insurance policies required by the Lease Agreement are in full force and effect and identifying whether any such insurance is then maintained in the form of self-insurance.

(b) In the event that any insurance maintained pursuant to Section 5.03 shall be provided in the form of self-insurance, the County shall file with the Trustee annually, no later than December 1 of each year, a statement of the risk manager of the County or an independent insurance adviser engaged by the County identifying the extent of such self-insurance and stating the determination that the County maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the County, the County shall not be obligated to make any payment with respect to any insured event except from such reserves. The Trustee shall not be responsible for the sufficiency or adequacy of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

(c) If the County shall fail to perform any of its obligations under Article V, the Authority or the Trustee may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the County shall be obligated to repay all such advances as soon as possible, with interest at the rate payable by the Authority on the Bonds from the date of the advance to the date of repayment.

Installation of Personal Property

The County may, at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Leased Premises. All such items shall remain the sole property of the County, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by the County at any time provided that the County shall repair and restore any and all damage to the Leased Premises and Facilities resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the County from purchasing or leasing items to be installed pursuant to this Section 5.08 under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Premises and Facilities.

Liens

Neither the County nor the Authority shall, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to any portion of the Leased Premises, other than the respective rights of the Authority and the County as provided herein and other than Permitted Encumbrances. Except as expressly provided in Article V, the County and the Authority shall promptly, at their own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The County shall reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Tax Covenants

The County shall use the portion of the Facilities financed with the Bonds in furtherance of its governmental activities and further covenants for the benefit of the Authority and the Owners of the Bonds that:

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

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

(c) All proceeds of the Bonds will be expended on the Facilities, which shall continue to be used in its entirety by the County and Authority as an Animal Shelter which will be operated by AFV pursuant to the Operations Agreement. If the County should choose to enter into management or service contracts or management or service agreements with private or nongovernmental entities (a "Nonexempt Entity") with respect to any facilities financed with the proceeds of the Bonds, the County will ensure that the terms (including renewal options) of such agreements or contracts shall comply with the requirements of applicable Treasury Regulations or Revenue Procedures, see, e.g., Revenue Procedure 97-13, so that none of such facilities is subject to "private business use" within the meaning of Section 141(b)(6) of the Code. At the time of delivery of the Bonds AFV is a 501(c)(3) corporation and the use of the Facilities companies within Section 147 of the Code; and

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

The covenants of the County contained in this Section 5.10 shall survive the payment, redemption or defeasance of Bonds.

Payment of Rebatable Amounts

The County agrees to furnish all information to, and cooperate fully with, the Authority and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of Section 6.07(e) of the Indenture. In the event that the Authority shall determine, pursuant to Section 6.07(e) of the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the County of such fact. Upon receipt of any such notice, the County shall promptly pay the amounts determined by the Authority to be due and payable to the United States of America under such Section 6.07(e), such payments to be made in accordance with the applicable provisions of the Tax Code.

Continuing Disclosure

The County hereby covenants and agrees that it will comply with and carry out all of the provisions of its Undertaking to Provide Continuing Disclosure with respect to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of the Lease Agreement, failure of the County to comply with such Undertaking to Provide Continuing Disclosure shall not be considered an Event of Default; however, any Bondholder may take such actions, as provided in such Undertaking to Provide Continuing Disclosure, as may be necessary and appropriate to cause the County to comply with its obligations under such Undertaking to Provide Continuing Disclosure.

Eminent Domain

(a) If all of the Leased Premises shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Premises shall be taken permanently, or if all of the Leased Premises or any part thereof shall be taken temporarily under the power of eminent domain, (a) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary; and (b) there shall be a partial abatement of Lease Payments in an amount to be agreed upon by the County and the Authority such that the resulting Lease Payments for the Leased Premises, represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Premises.

(b) Damage or Destruction. The Net Proceeds of any insurance award resulting from any damage to or destruction of any structure on the Leased Premises by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and, if the County and Authority determine that the replacement, repair, restoration, modification or improvement of such Leased Premises is not economically feasible or in the best interest of the County and Authority, the County shall certify to the Trustee and then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied as provided in Section 6.02 hereof, and the Lease Agreement shall be terminated; provided, however, that in the event of damage or destruction of the Leased Premises in full, such Net Proceeds may be transferred to the Redemption Fund only if sufficient, together with other money available therefor, to cause the redemption of all Outstanding Bonds. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed Lease Premises by the County, and the Lease Agreement shall remain in effect, subject to the provisions of Section 6.03 hereof upon receipt of a requisition signed by the Authorized Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid, and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the Authority.

Application of Net Proceeds

(a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Premises by fire or other casualty shall be deposited in its Insurance and Condemnation Fund or the Redemption fund, as applicable, by the Trustee and applied in accordance with Section 5.08 of the Indenture.

(b) From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described in Section 6.01 shall be deposited in the Insurance and Condemnation Fund or the Redemption Fund, as applicable, by the Trustee and applied in accordance with Section 5.08 of the Indenture.

Abatement of Lease Payments in the Event of Damage or Destruction

The Lease Payments allocable to the Leased Premises shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the County of the Facilities or any portion thereof. The amounts of the Lease Payments under such circumstances may not be less than the amounts of the unpaid Lease Payments, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Facilities not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the County waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there may be no abatement of Lease Payments to the extent that (a) the proceeds of rental interruption insurance, are available to pay Lease Payments; or (b) amounts in the Bond Fund are available to pay Debt Service payable from Lease Payments which would otherwise be abated.

Disclaimer of Warranties

Neither the Authority nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Leased Premises and Facilities, or any other representation or warranty with respect to the Leased Premises and Facilities. In no event shall the Authority, the Trustee, and their respective assigns be liable for incidental, indirect, special or consequential damages in connection with or arising out of the Lease Agreement or the Indenture for the existence, furnishing, functioning or the County's use of the Leased Premises and Facilities.

Rights of Access

The County agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Leased Premises and Facilities. The County further agrees that the Authority, any Authorized Representative of the Authority, and the Authority's successors or assigns shall have such rights of access to the Leased Premises and Facilities as may be reasonably necessary to cause the proper maintenance of the Leased Premises and Facilities in the event of failure by the County to perform its obligations hereunder.

Release and Indemnification Covenants

To the extent permitted by law, the County shall and hereby agrees to indemnify and save the Authority and the Trustee, and their respective officers, agents, successors and assigns, harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Premises and Facilities by the County; (b) any breach or default on the part of the County in the performance of any of its obligations under the Lease Agreement; (c) any act or negligence of the County or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Premises and Facilities; (d) the use, presence, storage, disposal of any Hazardous Substances on or about the Leased Premises and Facilities; or (e) the Trustee's acceptance or administration of the trust of the Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party; (f) any act or negligence of any sublessee of the County with respect to the Leased Premises and Facilities. No indemnification is made under this Section 7.03 or elsewhere in the Lease Agreement for willful misconduct or negligence under the Lease Agreement by the Authority or the Trustee or any of their respective officers, agents, employees, successors or assigns.

Assignment by the Authority

The Authority's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the County under the Lease Agreement, have been pledged and assigned to the Trustee for the benefit of the Owners of the Bonds pursuant to the Indenture, to which pledge and assignment the County hereby consents. The assignment of the Lease Agreement to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting hereunder shall be subject to the provisions of the Indenture, including, without limitation, the provisions of Article VIII thereof.

Assignment and Subleasing by the County

The Lease Agreement may not be assigned by the County. The County may sublease the Leased Premises and Facilities or any portion thereof, but only with the written consent of EVMWD pursuant to the AFV Lease and the Authority and subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the County to make Lease Payments hereunder shall remain obligations of the County;

(b) the County shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the County shall cause the Leased Premises and Facilities to be used for a purpose other than as may be authorized under the provisions of the laws of the State and the AFV Lease; and

(d) the County shall furnish the Authority and the Trustee with a written opinion of Bond Counsel, stating that such sublease is permitted by the Lease Agreement and the Indenture, and will not cause the interest on the Bonds to become included in gross income for federal income tax purposes.

Amendment Hereof

The Authority and the County may at any time amend or modify any of the provisions of the Lease Agreement, but only (a) with the prior written consent of a majority in aggregate principal amount of the Bonds Outstanding, or (b) without the consent of any of the Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the County contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the County;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein, or in any other respect whatsoever as the Authority and the County may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners of the Bonds;

(iii) to amend any provision thereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;

(iv) to amend the description of the Leased Premises set forth in Exhibit A hereto to add property acquired by the County and the Authority from proceeds on deposit in the Project Fund or to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release pursuant to Section 4.08; or

(v) to obligate the County to pay additional amounts of rental hereunder for the use and occupancy of the Leased Premises and Facilities, provided that (A) no Event of Default has occurred and is continuing under the Lease, (B) such additional amounts of rental do not cause the total rental payments made by the County hereunder to exceed the fair rental value of the Leased Premises and Facilities, as set forth in a certificate of a County Representative filed with the Trustee and the Authority, (C) the County shall have obtained and filed with the Trustee and the Authority a Written Certificate of an Authorized Representative of the County showing that the fair rental value of the Leased Premises and Facilities is not less than the sum of the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, and (D) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the laws of the State.

Termination, Breach or Other Actions With Respect to AFV Lease

In the event that the AFV or Elsinore Valley Municipal Water District terminates or causes a breach of the AFV Lease, or in the event that the AFV Lease becomes a matter in a bankruptcy or other judicial proceeding, then the County hereby agrees that it will either purchase the Site, or otherwise take action to maintain the chain of title, or substitute the Leased Premises hereunder with Substitute Leased Premises pursuant to Section 4.09 hereof.

Events of Default Defined

The following shall be “Events of Default” under the Lease Agreement:

(a) Failure by the County to pay any Lease Payment required to be paid hereunder at the time specified herein.

(b) Failure by the County to make any Miscellaneous Rent payment required hereunder and the continuation of such failure for a period of thirty (30) days.

(c) Failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the County by the Authority or the Trustee; provided, however, that if in the reasonable opinion of the County the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if the County shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith shall cure such failure in a reasonable period of time.

(d) The filing by the County of a voluntary petition in bankruptcy, or failure by the County promptly to lift any execution, garnishment or attachment, or adjudication of the County as a bankrupt, or assignment by the County for the benefit of creditors, or the entry by the County into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the County in any proceedings instituted under the provisions of applicable federal bankruptcy law, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default referred to in Section 9.01 shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything to the contrary herein or in the Indenture, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate the Lease Agreement or to cause the leasehold interest of the Authority or the subleasehold interest of the County in the Leased Premises to be sold, assigned or otherwise alienated. Each and every covenant hereof to be kept and performed by the County is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights of entry and re-entry upon the Leased Premises, subject to the provisions of the AFV Lease. In the event of such default and notwithstanding any re-entry by the Authority, the County shall, as herein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions herein contained, and in any event such rent and damages shall be payable to the Authority at the time and in the manner as herein provided, to wit:

(a) The County agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Premises, or, in the event the Authority is unable to relet the Leased Premises, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Premises or the exercise of any other remedy by the Authority.

(b) The County hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the County to enter upon and re-lease the Leased Premises in the event of default by the County in the performance of any covenants herein contained to be performed by the County and to remove all personal property whatsoever situated upon the Leased Premises to place such property in storage or other suitable place in the County of Riverside, for the account of and at the expense of the County, and the County hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Premises and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained.

(c) The County hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Premises as herein provided and all claims for damages that may result from the destruction of or injury to the Leased Premises and all claims for damages to or loss of any property belonging to the County that may be in or upon the Leased Premises.

(d) The County agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Leased Premises in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such releasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise.

(e) The County further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Premises.

No Remedy Exclusive

No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall, except as herein expressly provided to the contrary, be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in Article IX it shall not be necessary to give any notice, other than such notice as may be required in Article IX or by law.

Agreement to Pay Attorneys' Fees and Expenses

In the event either party to the Lease Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Trustee and Bondholder to Exercise Rights

Such rights and remedies as are given to the Authority under Article IX have been assigned by the Authority to the Trustee under the Indenture, to which assignment the County hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture to the extent that the Lease Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Lease Agreement, the Trustee is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Southwest Communities Financing Authority
4080 Lemon Street, 4th Floor
Riverside, California 92501-3679

Re: $15,105,000 Southwest Communities Financing Authority 2008 Lease Revenue Bonds Series A (County of Riverside Capital Project)

Ladies and Gentlemen:

We have examined certified copies of proceedings of Southwest Communities Financing Authority (the "Authority"), and other information and documents submitted to us relative to the issuance and sale by the Authority of its Southwest Communities Financing Authority 2008 Lease Revenue Bonds Series A (County of Riverside Capital Project) in the aggregate principal amount of $15,105,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Authority, Animal Friends of the Valley ("AFV"), the Trustee and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us and have assumed the genuineness of the signatures on all documents reviewed by us.

The Bonds have been issued pursuant to the authority contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Act") and an Indenture of Trust dated as of November 1, 2008 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee. All capitalized terms not defined herein have the meaning set forth in the Indenture.

We have relied on the opinion of Giardinelli & Duke APC, counsel to AFV, regarding, among other matters, the current qualifications of AFV as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of AFV within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of AFV to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond financed facilities in activities that are considered unrelated trade or business activities of AFV within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Based upon our examination of all of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized, executed and delivered by the Authority and are legal, valid and binding special obligations of the Authority, secured and payable solely from Revenues (as defined in the Indenture) and other sources as and to the extent provided for in the Indenture.

(2) The Indenture has been duly authorized by the Authority and constitutes the valid and legally binding obligation of the Authority and is enforceable against the Authority in accordance with its terms.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, in accordance with the provisions of the Indenture.

(4) Interest on the Bonds is exempt from California personal income taxation.

(5) The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the delivery of the Bonds for the interest received by the owners of the Bonds to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of delivery of the Bonds. The Authority and AFV have covenanted to comply with the requirements of the Code. Assuming compliance with the aforementioned covenant, we are of the opinion that, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. We observe, however, that interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations. Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Certificate") is executed and delivered by the County of Riverside (the "County") as of November __, 2008 in connection with the issuance of the $___________ Southwest Communities Financing Authority 2008 Lease Revenue Bonds, Series A (County of Riverside Capital Project) (the "Bonds"). The Bonds are being issued pursuant to the terms of an Indenture, dated as of November 1, 2008 (the "Indenture"), between the Southwest Communities Financing Authority (the "Issuer") and The Bank of New York Mellon Trust Company, N.A. (the "Trustee. 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 of the Bonds and in order to assist the Underwriters (as defined below) in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, 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 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 Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Central Post Office" shall mean shall mean the Disclosure USA website maintained by the Texas Municipal Advisory Council (the "MAC") or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

"**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 Events**" means any of the events listed in section 5(a) of this Certificate.

"**National Repository**" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the Commission as of the date of this Certificate are set forth in Exhibit A to this Certificate.

"**Underwriter**" means the original purchaser of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"**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. <u>Provision of Annual Reports</u>.

(a) The County shall, or shall cause the Dissemination Agent to, not later than sixty (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, 2008, 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 they are not available by that date. 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 each Annual Report to Repositories, the County shall provide such Annual Reports to the Dissemination Agent (if one has been appointed). If the County is unable to provide to the Repositories such Annual Reports 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 B 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) 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 all the Repositories to which it was provided.

(d) Notwithstanding any other provision of this Disclosure Certificate, the County and the Dissemination Agent, if any, may make any filing required under this Disclosure Certificate solely by transmitting such filing to the Central Post Office as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 4. <u>Content of Annual Reports</u>. The Annual Reports of the County 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 Reports are required to be filed pursuant to subsection 3(a) of this Certificate, the Annual Reports shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Reports when they become available.

(b) To the extent not included in the financial statements, the following types 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 budgets of the County for the current Fiscal Year and any changes in the adopted budget;

(iv) summary of aggregate annual debt obligations of the County as of the beginning of the current Fiscal Year;

(v) summary of 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 of the Repositories 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 Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;
(iii) unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) unscheduled draws on credit enhancements reflecting financial difficulties;
(v) substitution of credit or liquidity providers, or their failure to perform;
(vi) adverse tax opinions or events affecting the tax status of the Bonds;
(vii) modifications to the rights of Owners of the Bonds;
(viii) bond calls other than mandatory sinking fund redemptions;
(ix) defeasances;
(x) release, substitution, or sale of property, if any, securing repayment of the Bonds; 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 Bonds pursuant to the Indenture.

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 Bonds. If such termination occurs prior to the final maturity of the Bonds, 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 sixty (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 requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

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 no 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 Bonds 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 Indenture with respect to the Bonds, 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 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 Bonds.

Section 12. Beneficiaries. This Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Underwriters, the Owners and Beneficial Owners from time to time of the Bonds, 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.

COUNTY OF RIVERSIDE

By: _______________________________
Authorized Signatory

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Obligated Person:	County of Riverside, California
Name of Bond Issue:	$_________ Southwest Communities Financing Authority 2008 Lease Revenue Bonds Series A (County of Riverside Capital Project)
Issuance Date:	________, 2008

NOTICE IS HEREBY GIVEN that the COUNTY OF RIVERSIDE (the "County") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of _________, 2008, executed and delivered by the County. [The County anticipates the Annual Report will be filed by ____________________]

Dated:_____________

COUNTY OF RIVERSIDE

By: __________________________
Title: _________________________

APPENDIX F

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the Authority assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer 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, Federal Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and 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 of "AAA." The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Notices and Other Communications. 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. THE AUTHORITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

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

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of 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.

THE TRUSTEE AND THE AUTHORITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF

BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION “TAX MATTERS” HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture and payment of interest to each Owner who owns of record $1,000,000 or more in aggregate principal amount of Bonds may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Trustee’s receipt of such request.

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SOUTHWEST COMMUNITIES FINANCING AUTHORITY • 2008 LEASE REVENUE BONDS, SERIES A

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