

**SUBMITTAL TO THE BOARD OF SUPERVISORS,
COMMUNITY FACILITIES DISTRICT'S LEGISLATIVE BODY
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

639



FROM: EXECUTIVE OFFICE

SUBMITTAL DATE:
July 19, 2012

SUBJECT: Refunding of the County of Riverside Community Facilities District No. 04-2 (Lake Hills Crest) Special Tax Bonds, Series 2005 (the "Series 2005 Bonds") (Vote on Separately)

RECOMMENDED MOTION: That the Board acting ex officio as the legislative body of Community Facilities District No. 04-2 of the County of Riverside, (1) approve and adopt Resolution No. CFD 2012-12; (a) authorizing the issuance of Community Facilities District No. 04-2 Series 2012 Special Tax Bonds in an aggregate principal amount not to exceed \$21,500,000, (b) authorizing the execution and delivery of an Indenture, a Bond Purchase Agreement, an Escrow Agreement, and a Continuing Disclosure Agreement, and (c) authorizing the preparation of an Official Statement and all other matters related thereto; and (2) approve and authorize the Chairman to sign an agreement for Bond Counsel Services.

BACKGROUND: Community Facilities District No. 04-2 (Lake Hills Crest) was formed on January 11, 2005, to fund the acquisition and construction of public facilities within the district. On the same date, a landowner election was held, authorizing the community facilities district ("CFD") to incur bonded indebtedness. On August 18, 2005, the Series 2005 Bonds were issued in the amount of \$25,820,000, with interest rates ranging from 2.95% to 5.10% and final maturity of September 1, 2035. The par amount of the Series 2005 Bonds currently outstanding is \$22,915,000.

Continued on Page 2

Ivan M. Chand, Deputy County Executive Officer

FORM APPROVED COUNTY COUNSEL

BY: Dale A. Gardner DATE: 7/19/12

Departmental Concurrence

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 180,000	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ N/A	Budget Adjustment:	No
	Annual Net County Cost:	\$ N/A	For Fiscal Year:	2012/13

SOURCE OF FUNDS: Bond Proceeds	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: **APPROVE**
BY: **Christopher M. Hans**
County Executive Office Signature

- Dept't Recomm.: Consent Policy
- Per Exec. Ofc.: Consent Policy

MINUTES OF THE BOARD OF SUPERVISORS – COMMUNITY FACILITIES DISTRICT

On motion of Supervisor Stone, seconded by Supervisor Tavaglione and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Buster, Tavaglione, Stone, Benoit, and Ashley
Nays: None
Absent: None
Date: July 31, 2012
xc: CFD, E.O.

Kecia Harper-Ihem
Clerk of the Board
By: Deputy

BACKGROUND continued: Current market conditions allow for a full refunding of the Series 2005 Bonds through the issuance of Community Facilities District 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012. This can provide the property owners in the CFD with a total of approximately \$700,000 in present value savings or 3.1% of the refunded par. This exceeds the Board Policy B-24 requirement of at least 3% net present value savings. In addition, this refunding will not extend the maturity date per that policy.

If approved, staff recommends issuing approximately \$20.69 million in fixed interest rate bonds. The savings will average about \$150,000 annually through the life of the bonds. The average annual debt service is anticipated to be about \$1.49 million.

The agreement for Bond Counsel Services provides the scope of services that are to be performed by counsel in order to assist the County with the issuance of special tax refunding bonds. Bond Counsel fees will be paid through the cost of issuance for the refunding and at the closing of the bond issue when monies are disbursed.

The proposed sale and issuance of the Series 2012 Bonds has been reviewed and approved by the County's Debt Advisory Committee.

RESOLUTION NO. CFD 2012-12

A RESOLUTION OF THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$21,500,000 AGGREGATE PRINCIPAL AMOUNT OF COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE SPECIAL TAX REFUNDING BONDS, SERIES 2012, AUTHORIZING THE EXECUTION AND DELIVERY OF AN INDENTURE, AN ESCROW AGREEMENT, A BOND PURCHASE AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT AND THE PREPARATION OF AN OFFICIAL STATEMENT AND OTHER MATTERS RELATED THERETO

WHEREAS, the Board of Supervisors (the "Board of Supervisors") of the County of Riverside (the "County") has formed Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District") under the Mello-Roos Community Facilities Act of 1982 (the "Act");

WHEREAS, pursuant to the Act, the Board of Supervisors is the *ex officio* legislative body (the "Legislative Body") of the Community Facilities District;

WHEREAS, the Community Facilities District is authorized under the Act to levy special taxes (the "Special Taxes") to finance certain road facilities and appurtenances and bridge facilities (the "Facilities") and to issue bonds payable from the Special Taxes;

WHEREAS, in order to provide funds to finance certain of the Facilities, the Community Facilities District previously issued its Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Bonds, Series 2005 (the "Prior Bonds"), in the aggregate principal amount of \$25,820,000;

WHEREAS, the Community Facilities District is authorized under the Act to issue bonds payable from the Special Taxes in order to refund the Prior Bonds;

WHEREAS, the Community Facilities District desires to refund the Prior Bonds;

WHEREAS, in order to provide a portion of the moneys required to refund the Prior Bonds, the Community Facilities District desires to provide for the issuance of the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"), in the aggregate principal amount of not to exceed \$21,500,000;

FORM APPROVED COUNTY COUNSEL
BY: Dale A. Gardner 7/19/12 DATE
DALE A. GARDNER

WHEREAS, in order to provide for the authentication and delivery of the Series 2012 Bonds, to establish and declare the terms and conditions upon which the Series 2012 Bonds are to be issued and secured and to secure the payment of the principal thereof, premium, if any, and interest thereon, the Community Facilities District proposes to enter into an Indenture with The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (such Indenture, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Indenture");

WHEREAS, the moneys to defease and redeem the Prior Bonds will be applied to such purpose pursuant to an Escrow Agreement by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as prior trustee and as escrow bank (such Escrow Agreement, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Escrow Agreement");

WHEREAS, E. J. De La Rosa & Co., Inc. (the "Underwriter"), has presented the Community Facilities District with a proposal, in the form of a Bond Purchase Agreement, to purchase the Series 2012 Bonds from the Community Facilities District (such Bond Purchase Agreement, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Purchase Agreement");

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12") requires that, in order to be able to purchase or sell the Series 2012 Bonds, the underwriter thereof must have reasonably determined that the Community Facilities District has, or one or more appropriate obligated persons have, undertaken in a written agreement or contract for the benefit of the holders of the Series 2012 Bonds to provide disclosure of certain financial information and certain material events on an ongoing basis;

WHEREAS, in order to cause such requirement to be satisfied, the Community Facilities District desires to enter into a Continuing Disclosure Agreement with the Trustee (such Continuing Disclosure Agreement, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Continuing Disclosure Agreement");

WHEREAS, a form of the Preliminary Official Statement to be distributed in connection with the public offering of the Series 2012 Bonds has been prepared (such Preliminary Official Statement, in the form presented to this meeting, with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Preliminary Official Statement");

WHEREAS, there have been prepared and submitted to this meeting forms of:

- (a) the Indenture;
- (b) the Escrow Agreement;
- (c) the Purchase Agreement;

(d) the Continuing Disclosure Agreement; and

(e) the Preliminary Official Statement;

WHEREAS, the Community Facilities District desires to authorize the issuance of the Series 2012 Bonds and the execution of such documents and the performance of such acts as may be necessary or desirable to effect the issuance of the Series 2012 Bonds;

NOW, THEREFORE, THE BOARD OF SUPERVISORS OF THE COUNTY OF RIVERSIDE ACTING EX OFFICIO AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE, in regular session assembled on July 31, 2012, does hereby resolve, find, determine and order as follows:

Section 1. The foregoing recitals are true and correct.

Section 2. Subject to the provisions of Section 3 hereof, the issuance of the Series 2012 Bonds, in an aggregate principal amount of not to exceed \$21,500,000, on the terms and conditions set forth in, and subject to the limitations specified in, the Indenture, is hereby authorized and approved. The Series 2012 Bonds shall be dated, shall bear interest at the rates, shall mature on the dates, shall be subject to call and redemption, shall be issued in the form and shall be as otherwise provided in the Indenture, as the same shall be completed as provided in this Resolution.

Section 3. The Indenture, in substantially the form submitted to this meeting and made a part hereof as though set forth herein, be and the same is hereby approved. Each of the Chairman of the Legislative Body, and such other members of the Legislative Body as the Chairman may designate, the County Executive Officer of the County, the Assistant County Executive Officer of the County and the Chief Deputy Executive Officer of the County, and such other officers of the County as the County Executive Officer may designate (the "Authorized Officers") is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name of the Community Facilities District, to execute and deliver the Indenture in the form submitted to this meeting, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Indenture by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not authorize an aggregate principal amount of Series 2012 Bonds in excess of \$21,500,000, shall not result in a final maturity date of the Series 2012 Bonds later than September 1, 2035 and shall not result in a true interest cost for the Series 2012 Bonds in excess of 4.75%.

Section 4. The refunding of the Prior Bonds is hereby approved. Such refunding shall be accomplished by paying the interest due and payable on the Prior Bonds to and including September 1, 2012, paying the principal of the Prior Bonds due and payable on September 1, 2012 and redeeming the Prior Bonds on September 1, 2012 by paying the redemption price thereof. In accordance with Section 53363.8 of the Act, the Legislative Body hereby designates the following costs and expenses as the "designated costs of issuing the refunding bonds:"

(a) all expenses incident to the calling, retiring, or paying of the Prior Bonds and incident to the issuance of the Series 2012 Bonds, including the charges of any agent in connection with the issuance of the Series 2012 Bonds or in connection with the redemption or retirement of the Prior Bonds;

(b) the interest upon the Prior Bonds from the date of sale of the Series 2012 Bonds to the date upon which the Prior Bonds will be paid pursuant to call; and

(c) any premium necessary in the calling or retiring of the Prior Bonds.

Section 5. The Escrow Agreement, in substantially the form submitted to this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name of the Community Facilities District, to execute and deliver the Escrow Agreement in the form presented to this meeting, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Escrow Agreement by such Authorized Officer.

Section 6. The Purchase Agreement, in substantially the form submitted to this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name of the Community Facilities District, to execute and deliver the Purchase Agreement in the form presented to this meeting, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Purchase Agreement by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not result in an aggregate underwriter's discount (not including any original issue discount) from the principal amount of the Series 2012 Bonds in excess of 1.0% of the aggregate principal amount of the Series 2012 Bonds. The Legislative Body hereby finds and determines that the sale of the Series 2012 Bonds at negotiated sale as contemplated by the Purchase Agreement will result in a lower overall cost.

Section 7. The Continuing Disclosure Agreement, in substantially the form submitted to this meeting and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name of the Community Facilities District, to execute and deliver the Continuing Disclosure Agreement in the form presented to this meeting, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Continuing Disclosure Agreement by such Authorized Officer.

Section 8. The Preliminary Official Statement, in substantially the form presented to this meeting and made a part hereof as though set forth in full herein, with such changes, insertions and omissions therein as may be approved by an Authorized Officer, be and the same is hereby approved, and the use of the Preliminary Official Statement in connection with the offering and sale of the Series 2012 Bonds is hereby authorized and approved. The Authorized Officers are

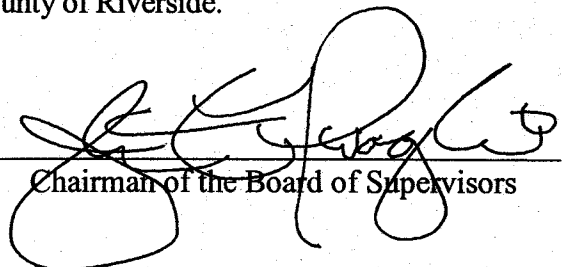
each hereby authorized to certify on behalf of the Community Facilities District that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12).

Section 9. The preparation and delivery of a final Official Statement (the "Official Statement"), and its use in connection with the offering and sale of the Series 2012 Bonds, be and the same is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement, with such changes, insertions and omissions as may be approved by an Authorized Officer, such approval to be conclusively evidenced by the execution and delivery thereof. Each of the Authorized Officers is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name of the Community Facilities District, to execute the final Official Statement and any amendment or supplement thereto.

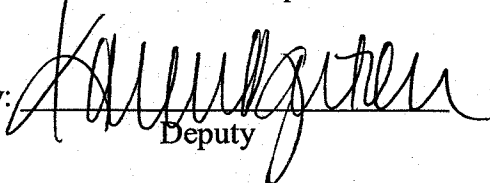
Section 10. The assessed values of the property within the Community Facilities District are set forth in the Preliminary Official Statement and the value-to-lien information with respect thereto is set forth therein and, based thereon, the Legislative Body, for purposes of Section 53345.8 of the Act, hereby finds and determines that the value of the real property that would be subject to the Special Tax to pay debt service on the Series 2012 Bonds will be at least three times the principal amount of the Series 2012 Bonds to be sold and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act on property within the Community Facilities District or a special assessment levied on property within the Community Facilities District.

Section 11. The officers of the County, acting *ex officio* on behalf of the Community Facilities District, are, and each of them is, hereby authorized and directed to do any and all things, and to execute and deliver any and all documents which said officers may deem necessary or advisable in order to accomplish the purposes of this Resolution and not inconsistent with the provisions hereof.

ADOPTED, SIGNED AND APPROVED this 31st day of July, 2012, by the Board of Supervisors of the County of Riverside, acting *ex officio* as the Legislative Body of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside.


Chairman of the Board of Supervisors

ATTEST:
Kecia Harper-Ihem
Clerk of the Board of Supervisors

By: 
Deputy

STATE OF CALIFORNIA)
)
COUNTY OF RIVERSIDE) ss.

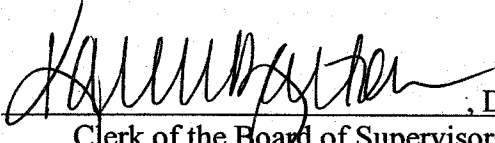
I, Kecia Harper-Ihem, Clerk of the Board of Supervisors of the County of Riverside, California, acting *ex officio* as the Clerk of the Legislative Body for Community Facilities Districts for the County of Riverside, do hereby certify that the foregoing Resolution No. CFD 2012-12 was duly adopted by the Board of Supervisors of said County, acting *ex officio* as the Legislative Body of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, at a meeting of said Board held on the 31st day of July, 2012, and that it was so adopted by the following vote:

AYES: Buster, Tavaglione, Stone, Benoit and Ashley

NOES: None

ABSTAIN: None

ABSENT: None


_____, Deputy
Clerk of the Board of Supervisors
of the County of Riverside, *ex officio* the
Clerk of the Legislative Body

The foregoing is certified to be a true copy of a resolution duly adopted by said Board of Supervisors on the date therein set forth.

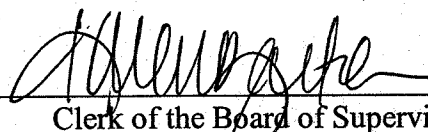
KECIA HARPER-IHEM, Clerk of said Board

By: _____
Deputy

STATE OF CALIFORNIA)
)
COUNTY OF RIVERSIDE) ss.

I, Kecia Harper-Ihem, Clerk of the Board of Supervisors of the County of Riverside, California, acting *ex officio* as the Clerk of the Legislative Body for Community Facilities Districts for the County of Riverside, do hereby certify that the above and foregoing is a full, true and correct copy of Resolution No. CFD 2012-12 of the Board of Supervisors of said County, acting *ex officio* as the legislative body of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, and that the same has not been amended or repealed.

Dated: July 31, 2012


_____, Deputy
Clerk of the Board of Supervisors
of the County of Riverside, *ex officio* the
Clerk of the Legislative Body

**AGREEMENT
FOR
BOND COUNSEL SERVICES**

**Community Facilities District No. 04-2 (Lake Hills Crest) of the County of
Riverside**

THIS AGREEMENT (this "Agreement"), dated as of _____, 2012, is by and between the COUNTY OF RIVERSIDE (the "County") and ORRICK, HERRINGTON & SUTCLIFFE LLP ("Bond Counsel").

W I T N E S S E T H

WHEREAS, the County previously established Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District") and authorized the levy of special taxes upon the land within the Community Facilities District;

WHEREAS, the Community Facilities District previously issued bonds payable from such special taxes (the "Prior Bonds") to finance certain road facilities and appurtenances and bridge facilities;

WHEREAS, the County desires that the Community Facilities District issue bonds (the "Bonds") to refund the Prior Bonds;

WHEREAS, the County desires to employ Bond Counsel to provide legal services incident to the issuance and sale of the Bonds; and

WHEREAS, Bond Counsel possesses the necessary professional capabilities and resources to provide the legal services required by the County as described in this Agreement;

NOW, THEREFORE, it is mutually agreed by the parties hereto as follows:

Section 1. Scope of Services. (a) Bond Counsel shall perform the following legal services in connection with the issuance and sale of Bonds:

(i) consultation with representatives of the County, including the County Counsel, the special tax consultant, the financial advisor, the underwriter, underwriter's counsel and others, concerning the proposed financing and its timing, terms and structure, and including the rendering of legal advice with respect to the proceedings deemed necessary or desirable to comply with all requirements of law preliminary to the authorization, issuance and sale of the Bonds;

(ii) preparation of documents to be adopted or entered into by the Community Facilities District required for the issuance of the Bonds and the refunding of the Prior Bonds, including preparation of the authorizing resolution, the indenture providing for the issuance of the Bonds and the escrow agreement (the "Major Legal Documents");

(iii) preparation of the continuing disclosure agreement to be entered into in connection with the issuance of the Bonds; provided, however, that, as Rule 15c2-12 applies only to underwriters, compliance with such rule will be the responsibility of underwriter's counsel, and that if, as a result, the continuing disclosure agreement is prepared by underwriter's counsel, all references to that document contained in this Agreement shall be deemed deleted;

(iv) preparation of summaries of the Major Legal Documents included in the official statement;

(v) attendance at such County Board of Supervisors meetings and working group meetings or conference calls as the County may request, and assistance to the County staff in preparation of such explanations or presentations to the County Board of Supervisors as such staff may request;

(vi) preparation of final closing papers to be executed by the Community Facilities District required to effect delivery of the Bonds (including the tax certificate) and coordination of the closing;

(vii) rendering of Bond Counsel's customary final legal opinion on the validity of the Bonds and the tax-exempt status of interest thereon; and

(viii) such other legal services as may be incidental to the foregoing.

(b) The County shall and will rely on County Counsel to render day to day and ongoing general counsel legal services. Bond Counsel shall circulate documents to and coordinate its services with County Counsel to the extent requested by the County or County Counsel. Bond Counsel shall be entitled to assume that County Counsel has reviewed all documents and matters submitted to the County for adoption or approval or to officers of the County for execution prior to such adoption, approval or execution.

In rendering opinions and performing legal services under this Agreement, Bond Counsel shall be entitled to rely on the accuracy and completeness of information provided and certifications made by, and opinions provided by counsel to, the County and other parties and consultants, without independent investigation or verification.

Bond Counsel services are limited to those specifically set forth in this Section. Bond Counsel services do not include any services beyond those set forth in this Section, including, without limitation (i) any representation of the County or any other party in any litigation or other legal or administrative proceeding involving any of the Bonds or any related matter, (ii) the preparation of any bond purchase agreement or credit enhancement agreement or the preparation or review of any investment

agreement, (iii) any responsibility for compliance with federal or state securities laws, environmental, land use, real estate, any tax laws (except as required for tax exemption of the interest on the Bonds), insurance or similar laws or matters or for title to or perfection of security interests in real or personal property, or (iv) any financial advice or analysis. Bond Counsel will not be responsible for the services performed or acts or omissions of any other participant. Also, Bond Counsel services with respect the Bonds will not extend past the date of issuance of the Bonds and will not, for example, include services related to rebate compliance or continuing disclosure (although Bond Counsel may be available for separate engagement to provide either or both such services pursuant to separate contract) or otherwise related to the Bonds.

Section 2. Compensation. For the legal services described in subsection (a) of Section 1 hereof, Bond Counsel shall be paid a flat fee of \$55,000.

In addition to the fee provided above, Bond Counsel shall be paid a flat amount of \$1,000 to cover costs and expenses (direct and indirect) incurred in connection with the legal services rendered pursuant hereto, including (without limitation) document reproduction and delivery, travel, long distance telephone, telecopy, word processing, computer research, secretarial overtime, final transcripts and other similar expenses.

The fee payable to Bond Counsel pursuant to this Section is based, in part, upon the assumption that the scope of services will conform to the description thereof contained in subsection (a) of Section 1 hereof, the transaction will not have an extraordinary amount of problems/issues, Bond Counsel will be required to attend no more than the usual number of meetings and conference calls, Bond Counsel will not be required to generate an inordinate amount of drafts of the Major Legal Documents and the structure of the transaction will not materially change (particularly after preparation of the Major Legal Documents has commenced). If any part of this assumption is incorrect, or if any unusual or unforeseen circumstances arise, and occasion substantial additional work or responsibility on the part of Bond Counsel, Bond Counsel will be entitled to seek additional compensation in such amount as the County and Bond Counsel shall mutually agree to be appropriate.

Bond Counsel's fee and expenses shall be payable by the County at or after the issuance of the Bonds. Payment of such fee and expenses shall be made from proceeds of the Bonds and shall be entirely contingent upon the issuance of the Bonds.

Section 3. Termination of Agreement and Legal Services. This Agreement and all legal services to be rendered under it may be terminated at any time by written notice from either party, with or without cause. In that event, all finished and unfinished documents prepared for adoption or execution by the County, shall, at the option of the County, become its property and shall be delivered to it or to any party it may designate; provided that Bond Counsel shall have no liability whatsoever for any subsequent use of such documents. In the event of termination by the County, Bond Counsel shall be paid for all satisfactory work at its usual hourly rates unless the termination is made for cause, in which event compensation, if any, shall be adjusted in the light of the particular facts and circumstances involved in the termination. If not

sooner terminated as aforesaid, this Agreement and all legal services to be rendered under it shall terminate upon the issuance of the Bonds; provided that the County shall remain liable for any unpaid compensation or reimbursement due under Section 2 hereof. Upon termination, Bond Counsel shall have no future duty of any kind to or with respect to the Bonds or the County. For various cost and other reasons, Bond Counsel reserves the right to dispose, in any manner it chooses, of any documents or other materials retained by it after such termination.

Section 4. Nature of Engagement; Relationships With Other Parties. The role of bond counsel, generally, is to prepare or review the procedures for issuance of the bonds, notes or other evidence of indebtedness and to provide an expert legal opinion with respect to the validity thereof and other subjects (usually including the tax status of interest on the bonds) addressed by the opinion. Consistent with the historical origin and unique role of bond counsel, and reliance thereon by the public finance market, Bond Counsel's role as bond counsel under this Agreement is to provide opinions and related legal services that represent an objective judgment on the matters addressed rather than the partisan position of an advocate.

In performing its services as bond counsel in connection with the Bonds, Bond Counsel will act as bond counsel to the County with respect to the issuance of the Bonds; that is, Bond Counsel will assist County Counsel in representing the County but only with respect to the validity of the Major Legal Documents and the tax status of interest on the Bonds, and in a manner not inconsistent with the role of bond counsel described in the first sentence of this Section.

The County acknowledges that Bond Counsel regularly performs legal services for many private and public entities in connection with a wide variety of matters. For example, Bond Counsel has represented, is representing or may in the future represent other public entities, underwriters, trustees, rating agencies, insurers, credit enhancement providers, lenders, contractors, suppliers, financial and other consultants/advisors, accountants, investment providers/brokers, providers/brokers of derivative products and others who may have a role or interest in the financing or that may be involved with or adverse to the County in this or some other matter. Bond Counsel agrees not to represent any such entity in connection with the issuance of the Bonds, during the term of this Agreement, without the consent of the County, except possibly with respect to investment or derivative products where, because Bond Counsel has assisted a number of the providers/brokers in designing and developing their products and provides general and transactional advice with respect to such products, it is not practical to seek specific consent in each case, and instead Bond Counsel agrees to separate the attorneys working on the financings pursuant to this Agreement from the attorneys working on the investment or derivative products. Given the special, limited role of bond counsel described above, the County acknowledges that no conflict of interest exists or would exist, and waives any actual or potential conflict of interest that might be deemed to arise, now or in the future, from this Agreement or any such other relationship that Bond Counsel may have had, have or enter into, and the County specifically consents to any and all such relationships.

Section 5. Limitation of Rights to Parties; Successor and Assigns. Nothing in this Agreement or in any of the documents contemplated hereby, expressed or implied, is intended or shall be construed to give any person other than the County and Bond Counsel any legal or equitable right or claim under or in respect of this Agreement, and this Agreement shall inure to the sole and exclusive benefit of the County and Bond Counsel.

Bond Counsel may not assign its obligations under this Agreement without written consent of the County except to a successor partnership or corporation to which all or substantially all of the assets and operations of Bond Counsel are transferred. The County may assign its rights and obligations under this Agreement to (but only to) the Community Facilities District. The County shall not otherwise assign its rights and obligations under this Agreement without written consent of Bond Counsel. All references to Bond Counsel and the County in this Agreement shall be deemed to refer to any such successor of Bond Counsel and to any such assignee of the County and shall bind and inure to the benefit of such successor and assignee whether so expressed or not.

Section 6. Professional Liability Insurance: Bond Counsel shall maintain Professional Liability Insurance providing coverage for the Bond Counsel's performance of work included within this Agreement, with a limit of liability of not less than \$1,000,000 per occurrence and \$2,000,000 annual aggregate. If Bond Counsel's Professional Liability Insurance is written on a claims made basis rather than an occurrence basis, such insurance shall continue through the term of this Agreement and Bond Counsel shall purchase at his sole expense either (i) an Extended Reporting Endorsement (also known as Tail Coverage); (ii) Prior Dates Coverage from new insurer with a retroactive date back to the date of, or prior to, the inception of this Agreement; or (iii) demonstrate through certificates of insurance that Bond Counsel has maintained continuous coverage with the same or original insurer. Coverage provided under items (i), (ii) or (iii) will continue for a period of five (5) years beyond the termination of this Agreement.

Section 7. Counterparts. This Agreement may be executed in any number of counterparts and each counterpart shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same Agreement.

Section 8. Applicable Law. This Agreement and all amendments, modifications, alterations or supplements hereto, and the rights of the parties hereunder, shall be construed under and governed by, the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

FORM APPROVED COUNTY COUNSEL
BY Dale A. Gardner 8/2/12
OWNER DATE
Dale A. Gardner

COUNTY OF RIVERSIDE
By: [Signature]
John Favaglione, Chairman of the Board of Supervisors

ATTEST:
Kecia Harper-Ihem
Clerk of the Board of Supervisors

By: [Signature]
Deputy

ORRICK, HERRINGTON & SUTCLIFFE
LLP
By: [Signature]
Greg Harrington, Partner

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST __, 2012

NEW ISSUE - BOOK-ENTRY ONLY

NO RATING

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds. See "LEGAL MATTERS — Tax Exemption."

\$21,320,000*

**COMMUNITY FACILITIES DISTRICT NO. 04-2
(LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX REFUNDING BONDS, SERIES 2012**

Dated: Date of Delivery

Due: September 1, as shown on the inside cover page

The Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds") are being issued and delivered by Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District") to refund the Community Facilities District's outstanding Special Tax Refunding Bonds Series 2004 maturing after September 1, 2012. See "THE REFUNDING PLAN" herein. The Community Facilities District has been formed by and is located in the County of Riverside, California (the "County").

The Series 2012 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to an Indenture, dated as of August 1, 2012 by and between the Community Facilities District and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") (the "Indenture").

The Series 2012 Bonds are special obligations of the Community Facilities District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within the Community Facilities District subject to the Special Tax and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within the Community Facilities District. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the Community Facilities District.

The Series 2012 Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof in book-entry form only. Purchasers of Series 2012 Bonds will not receive certificates representing their beneficial ownership of the Series 2012 Bonds but will receive credit balances on the books of their respective nominees. Interest on the Series 2012 Bonds will be payable on March 1, 2013 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the Series 2012 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the Series 2012 Bonds. See "THE SERIES 2012 BONDS — General Provisions" and APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" herein.

Neither the faith and credit nor the taxing power of the County of Riverside, the State of California or any political subdivision thereof is pledged to the payment of the Series 2012 Bonds. Except for the Net Special Tax Revenues (as defined herein), no other taxes are pledged to the payment of the Series 2012 Bonds. The Series 2012 Bonds are special tax obligations of the Community Facilities District payable solely from Net Special Tax Revenues (as defined herein) and certain other amounts held under the Indenture as more fully described herein.

The Series 2012 Bonds are subject to optional redemption, mandatory redemption from Special Tax prepayments and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE SERIES 2012 BONDS — Redemption" herein.

Certain events could affect the ability of the Community Facilities District to pay the principal of and interest on the Series 2012 Bonds when due. The purchase of the Series 2012 Bonds involves significant investment risks, and the Series 2012 Bonds may not be suitable investments for many investors. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series 2012 Bonds.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE
(See Inside Cover Page)

The Series 2012 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the Community Facilities District with respect to the Series 2012 Bonds. Certain legal matters will be passed on for the County and the Community Facilities District by the County Counsel and for the Underwriter by Nossaman LLP, Irvine, California, as counsel to the Underwriter. It is anticipated that the Series 2012 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about August __, 2012.

De La Rosa & Co.

Dated: August __, 2012

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

MATURITY SCHEDULE

(Base CUSIP[†]: _____)

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP[†]</i>
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[†] Copyright 2012, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The Community Facilities District takes no responsibility for the accuracy of such data.

**COMMUNITY FACILITIES DISTRICT NO. 04-2
(LAKE HILLS CREST)**

**COUNTY OF RIVERSIDE
STATE OF CALIFORNIA**

BOARD OF SUPERVISORS

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

COUNTY OFFICIALS

Jay Orr, County Executive Officer
Don Kent, Treasurer-Tax Collector
Paul Angulo, Auditor-Controller
Larry Ward, Assessor-County Clerk-Recorder
Pamela J. Walls, County Counsel

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates
Irvine, California

SPECIAL TAX CONSULTANT

Albert A. Webb Associates
Riverside, California

DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

TRUSTEE

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

VERIFICATION AGENT

Grant Thornton LLP

No dealer, broker, salesperson or other person has been authorized by the County, the Community Facilities District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series 2012 Bonds 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 County, the Community Facilities District, the Trustee 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 Series 2012 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 or Beneficial Owners of the Series 2012 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. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board, or a nationally recognized municipal securities depository.

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, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information in APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the Community Facilities District or the County or the Underwriter as to the accuracy or completeness of such information.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the County or the Community Facilities District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Community Facilities District or any other parties described herein 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. Reference is hereby made to such documents on file with the County for further information in connection therewith.

A wide variety of other information, including financial information, concerning the County, is available from publications and websites of the County and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

Cautionary Information Regarding Forward-Looking Statements in the Official Statement

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the Continuing Disclosure Agreement, a form of which is attached as Exhibit D, neither the County nor the Community Facilities District plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

In connection with the offering of the Series 2012 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of such 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 Series 2012 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriter.

The Series 2012 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The Series 2012 Bonds have not been registered or qualified under the securities laws of any state.

[INSERT COMMUNITY FACILITIES DISTRICT MAP]

TABLE OF CONTENTS

Page

INTRODUCTION.....1
 General1
 The Community Facilities District1
 Security and Sources of Payment for the Series 2012 Bonds.....2
 Description of the Series 2012 Bonds4
 Tax Matters.....4
 Professionals Involved in the Offering.....4
 Continuing Disclosure5
 Bond Owners’ Risks.....5
 Other Information.....5

ESTIMATED SOURCES AND USES OF FUNDS.....6

THE REFUNDING PLAN.....6
 General6

THE SERIES 2012 BONDS7
 General Provisions.....7
 Authority for Issuance7
 Debt Service Schedule.....8
 Redemption8
 Registration, Transfer and Exchange.....10
 Additional Bonds for Refunding Purposes Only.....11

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS11
 Covenants and Warranties.....11
 Limited Obligations.....11
 Special Taxes.....12
 Estimated Debt Service Coverage18
 Special Tax Fund.....18
 Bond Fund19
 Redemption Fund19
 Reserve Fund19
 Administrative Expense Fund20

THE COMMUNITY FACILITIES DISTRICT20
 General Description of the Community Facilities District20
 Estimated Direct and Overlapping Indebtedness.....21
 Expected Tax Burden23
 Principal Taxpayers24
 Delinquency History.....26
 Estimated Assessed Value-to-Lien Ratios.....27

SPECIAL RISK FACTORS.....29
 Risks of Real Estate Secured Investments Generally29
 Risks Related to Current Market Conditions.....29
 Economic Uncertainty29
 Limited Obligations.....30
 Insufficiency of Special Taxes30
 Depletion of Reserve Fund.....31
 Natural Disasters31
 Hazardous Substances31

TABLE OF CONTENTS
(continued)

	<u>Page</u>
Parity Taxes and Special Assessments	32
Disclosures to Future Purchasers.....	32
Special Tax Delinquencies	33
Non-Cash Payments of Special Taxes.....	33
Payment of the Special Tax is not a Personal Obligation of the Owners	33
Property Values; Value-to-Lien Ratios	33
FDIC/Federal Government Interests in Properties	34
Bankruptcy and Foreclosure.....	35
No Acceleration Provision	36
Loss of Tax Exemption	36
Limitations on Remedies.....	37
Limited Secondary Market.....	37
Proposition 218.....	37
Ballot Initiatives	38
 CONTINUING DISCLOSURE	 38
 LEGAL MATTERS	 39
Tax Exemption	39
Litigation	41
Legal Opinion.....	41
No Rating	41
Underwriting	41
Financial Interests.....	42
Pending Legislation.....	42
Additional Information.....	42
 APPENDIX A RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.....	 A-1
APPENDIX B GENERAL INFORMATION CONCERNING THE COUNTY OF RIVERSIDE.....	B-1
APPENDIX C SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	C-1
APPENDIX D FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT	D-1
APPENDIX E FORM OF OPINION OF BOND COUNSEL	E-1
APPENDIX F BOOK-ENTRY ONLY SYSTEM.....	F-1

\$21,320,000*
COMMUNITY FACILITIES DISTRICT NO. 04-2
(LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX REFUNDING BONDS, SERIES 2012

INTRODUCTION

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Series 2012 Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the “Community Facilities District”) of the \$21,320,000* Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the “Series 2012 Bonds”). The proceeds of the Series 2012 Bonds, together with certain existing funds of the Community Facilities District, will be used to defease all of the Community Facilities District’s outstanding Special Tax Bonds, Series 2005 (the “2005 Bonds”), originally issued in the aggregate principal amount of \$25,820,000 and now outstanding in the principal amount of \$22,915,000 (the “Refunded Bonds”). A portion of the Series 2012 Bonds will be used to fund a deposit to the Reserve Fund and to pay costs of issuance of the Series 2012 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Series 2012 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California) (the “Act”), and an Indenture dated as of August 1, 2012 (the “Indenture”) by and between the Community Facilities District and The Bank of New York Trust Company, N.A. (the “Trustee”). Upon their issuance, the Series 2012 Bonds will be the only outstanding bonds of the Community Facilities District and will be secured under the Indenture by a pledge of and lien upon Net Special Taxes Revenues (as defined herein) and any other amounts held in the Special Tax Fund as described in the Indenture. The Community Facilities District will covenant in the Indenture not to issue any other bonds or indebtedness secured by the Special Taxes, except to refund the Series 2012 Bonds. See “THE SERIES 2012 BONDS—Additional Bonds For Refunding Purposes Only” herein.

The Community Facilities District

Formation Proceedings. The Community Facilities District was formed by the County of Riverside (the “County”) pursuant to the Act.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its

* Preliminary, subject to change.

legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the Board of Supervisors of the County adopted the necessary resolutions stating its intent to establish the Community Facilities District, to authorize the levy of Special Taxes on taxable property within the boundaries of the Community Facilities District, and to have the Community Facilities District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the Board of Supervisors of the County adopted resolutions establishing the Community Facilities District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the Community Facilities District. On January 11, 2005, at an election held pursuant to the Act, the landowners who comprised the qualified voters of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness in an aggregate principal amount not to exceed \$32,500,000 and approved the rate and method of apportionment of the Special Taxes for the Community Facilities District (the "Rate and Method") to pay the principal of and interest on the bonds of the Community Facilities District. The Rate and Method is set forth in APPENDIX A hereto. The Board of Supervisors of the County acts as the legislative body of the Community Facilities District.

Development Status. The Community Facilities District is located in the northwestern portion of the County, in an unincorporated area approximately one mile south of the 91 Freeway and approximately three miles east of the I-15 Freeway. The property is generally surrounded by City of Corona to the west, an unincorporated community of Home Gardens to the northwest, the City of Riverside to the north, unincorporated Riverside County area to the south and east, and Lake Mathews just over a mile to the southeast.

The Community Facilities District is situated along Lakepointe Drive and Skyridge Drive, and extends for nearly two miles between Indiana Avenue (nearby to the northwest) and La Sierra Avenue (nearby to the southeast). All of the taxable property in the Community Facilities District is being developed for residential use as single-family detached homes. As of June 30, 2012, there were 432 completed single family detached homes which had been conveyed to individual homeowners, 30 additional parcels owned by Richmond American Homes of Maryland, Inc. ("Richmond American"), the developer within the Community Facilities District, for which building permits had been obtained as of April 1, 2012 and which are classified as "Developed Property" for the Fiscal Year 2012-13 Special Tax levy, and 40 parcels of Approved Property owned by Richmond American. See "THE COMMUNITY FACILITIES DISTRICT" herein.

As of June 30, 2012, the assessed value of the property within the Community Facilities District subject to the levy of the Special Tax was \$203,414,917 resulting in an estimated assessed value to lien ratio of 7.57^{*}-to-1 for the property subject to the Special Tax levy in Fiscal Year 2012-13 based on the principal amount of the Series 2012 Bonds and other overlapping debt secured by *ad valorem* taxes, special taxes and assessments on such property. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Assessed Value-to-Lien Ratios" herein.

Security and Sources of Payment for the Series 2012 Bonds

General. The Series 2012 Bonds are limited obligations of the Community Facilities District, and the interest on and principal of and redemption premiums, if any, on the Series 2012 Bonds are payable solely from Net Special Tax Revenues (described below) to be levied annually against the property in the Community Facilities District, and other amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of Riverside County. Although the Special Taxes will constitute a

^{*} Preliminary, subject to change.

lien on the property subject to taxation in the Community Facilities District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

Net Special Tax Revenues. Under the Indenture, the Community Facilities District has pledged to repay the Series 2012 Bonds from Net Special Tax Revenues and other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Net Special Tax Revenues consist of Special Tax Revenues less the amount required to pay Administrative Expenses. Special Tax Revenues are defined in the Indenture to include the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.

The Net Special Tax Revenues are the primary security for the repayment of the Series 2012 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes." In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Series 2012 Bonds are amounts held by the Trustee in the Special Tax Fund, the Bond Fund and the Reserve Fund. Amounts held in the Rebate Fund and the Administrative Expense Fund are not available to pay the debt service on the Series 2012 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Reserve Fund."

Proceeds of Foreclosure Sales. Pursuant to Section 53356.1 of the Act and the Indenture, the Community Facilities District will covenant in the Indenture with and for the benefit of the Owners of the Series 2012 Bonds that the Community Facilities District will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$2,500 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings. However, notwithstanding the foregoing, the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Additionally, notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost. See "SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

There is no assurance that the property within the Community Facilities District can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the Series 2012 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the Community Facilities District. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" herein.

EXCEPT FOR THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND, NO OTHER FUNDS ARE PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE SERIES 2012 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY BUT ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND UNDER THE INDENTURE AS MORE FULLY

DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE COUNTY, OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS.

Under the terms of the Indenture, the Community Facilities District may issue additional bonds secured by the Net Special Tax Revenues of the Community Facilities District on a parity with the Series 2012 Bonds only to refund all or a portion of the Series 2012 Bonds. See "THE SERIES 2012 BONDS — Additional Bonds For Refunding Purposes Only."

Description of the Series 2012 Bonds

The Series 2012 Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Series 2012 Bonds (the "Beneficial Owners") in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2012 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the Series 2012 Bonds, the Series 2012 Bonds will be registered and transferred in accordance with the Indenture. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" herein.

Principal of, premium, if any, and interest on the Series 2012 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Series 2012 Bonds, the Beneficial Owners will become the registered owners of the Series 2012 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" herein.

The Series 2012 Bonds are subject to optional redemption, mandatory redemption and extraordinary mandatory redemption as described herein. For a more complete description of the Series 2012 Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE SERIES 2012 BONDS" and APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" herein.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds. See "LEGAL MATTERS — Tax Exemption."

Professionals Involved in the Offering

The Bank of New York Trust Company, N.A. will act as Trustee under the Indenture and as the escrow agent under the Escrow Agreement relating to the defeasance of the Refunded Bonds. De La Rosa & Co. is the Underwriter of the Series 2012 Bonds. Certain proceedings in connection with the issuance and

delivery of the Series 2012 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See APPENDIX E — FORM OF OPINION OF BOND COUNSEL.” Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the Community Facilities District with respect to the Series 2012 Bonds. Fieldman, Rolapp & Associates is acting as Financial Advisor to the County in connection with the Series 2012 Bonds. Certain legal matters will be passed upon for the County and the Community Facilities District by County Counsel, and for the Underwriter by Nossaman LLP, Irvine, California, as Underwriter’s Counsel. Other professional services have been performed by Albert A. Webb Associates, Inc., Riverside, California, as Special Tax Consultant and Grant Thornton LLP as Verification Agent.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Series 2012 Bonds, see “LEGAL MATTERS — Financial Interests” herein.

Continuing Disclosure

The Community Facilities District will enter into a Continuing Disclosure Agreement, dated as of August 1, 2012, with the Trustee (the “Continuing Disclosure Agreement”) pursuant to which the Community Facilities District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system certain annual financial information and operating data. The Community Facilities District will further agree to provide notice of certain material events. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See “FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT” herein and APPENDIX D hereto for a description of the specific nature of the annual reports to be filed by the Community Facilities District and notices of material events to be provided by the Community Facilities District. Within the last five years, the Community Facilities District has not failed to comply in all material respects with any of its prior continuing disclosure obligations under Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE.”

Bond Owners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the Series 2012 Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2012 Bonds. The Series 2012 Bonds are not rated by any nationally recognized rating agency. *The purchase of the Series 2012 Bonds involves significant investment risks, and the Series 2012 Bonds may not be suitable investments for many investors.* See “SPECIAL RISK FACTORS” herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Series 2012 Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Series 2012 Bonds and the constitution and laws of the State as well as the proceedings of the Board of Supervisors of the County, acting as the legislative body of the Community Facilities District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Series 2012 Bonds, by reference to the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the County of a charge for

copying, mailing and handling) for delivery from the Trustee at 400 South Hope Street, Suite 400, Los Angeles, CA 90071, Attention: Teresa Fructuoso, Vice President.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Series 2012 Bond proceeds and prior funds:

Sources of Funds

Principal Amount of Series 2012 Bonds	\$
[Original Issue Premium/(Discount)]	
Prior Funds ⁽¹⁾	
TOTAL SOURCES	\$ <u><u> </u></u>

Uses of Funds

Escrow Fund	\$
Reserve Fund	
Cost of Issuance Fund ⁽²⁾	
Underwriter's Discount	
TOTAL USES	\$ <u><u> </u></u>

⁽¹⁾ Funds transferred from Special Tax Fund and the Reserve Fund relating to the Refunded Bonds.
⁽²⁾ Includes Bond Counsel fees, Financial Advisor fees, Special Tax Consultant fees, Verification Agent fees, Trustee and Escrow Agent fees and expenses, and other miscellaneous costs.

THE REFUNDING PLAN

General

A portion of the proceeds from the sale of the Series 2012 Bonds will be used along with other funds held by the Community Facilities District to defease the Refunded Bonds. The Community Facilities District will enter into an Escrow Agreement with regard to the Refunded Bonds (the "Escrow Agreement"), dated as of August 1, 2012, by and between the Community Facilities District and The Bank of New York Trust Company, N.A. (the "Escrow Agent"). An irrevocable escrow fund will be established under the Escrow Agreement (the "Escrow Fund"). The moneys deposited with the Escrow Agent will be sufficient to defease the Refunded Bonds and redeem the Refunded Bonds maturing on and after September 1, 2013 on September 1, 2012 (the "Redemption Date"). Moneys on deposit in the Escrow Fund will be held uninvested in cash. The amounts in the Escrow Fund will be held by the Escrow Agent and for the benefit of the owners of the Refunded Bonds and will be applied to pay at maturity and redeem, as applicable, the Refunded Bonds which remain outstanding, in whole, on September 1, 2012. Upon the establishment of the Escrow Fund as described above, the Refunded Bonds will be discharged under the Indenture and the owners of the Refunded Bonds will have no rights thereunder except to be paid the principal and interest due on the Refunded Bonds from amounts in the Escrow Fund.

Grant Thornton LLP, upon delivery of the Series 2012 Bonds, will deliver a verification report relating to the sufficiency of moneys deposited into the Escrow Fund to pay the principal of, interest on and the redemption price with respect to the Refunded Bonds on the Redemption Date.

THE SERIES 2012 BONDS

General Provisions

The Series 2012 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2013 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series 2012 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the Series 2012 Bonds are held in book-entry form, principal and interest on the Series 2012 Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM."

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Series 2012 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Series 2012 Bond, unless (i) a Series 2012 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon shall be payable from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for.

Authority for Issuance

The Series 2012 Bonds will be issued pursuant to the Act and the Indenture. As required by the Act, the Board of Supervisors of the County has taken the following actions with respect to establishing the Community Facilities District and authorizing the issuance of the Series 2012 Bonds:

Resolutions of Intention: On September 14, 2004, the Board of Supervisors of the County (the "Board") adopted Resolution No. 04-427 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein. On the same day the Board adopted Resolution No. 04-428 declaring its intention to incur bonded indebtedness in an amount not to exceed \$32,500,000 within the Community Facilities District.

Resolution of Formation: Immediately following a noticed public hearing on January 11, 2005, the Board adopted Resolution No. 2005-03 (the "Resolution of Formation"), which established the Community Facilities District and authorized the levy of a special tax within the Community Facilities District, and called a special election by the qualified electors of the Community Facilities District.

Resolution of Necessity: On January 11, 2005, the Board, acting as the legislative body of the Community Facilities District (the "Legislative Body"), adopted Resolution No. CFD 2005-01 declaring the necessity to incur bonded indebtedness in an aggregate amount not to exceed \$32,500,000 within the Community Facilities District and submitting that proposition to the qualified electors of the Community Facilities District.

Landowner Election and Declaration of Results: On January 11, 2005, a special landowner election was held within the Community Facilities District in which the qualified electors approved a ballot proposition authorizing the issuance of up to \$32,500,000 in bonds to finance the acquisition and construction of the Public Facilities and the levy of the Special Taxes within the Community Facilities District. On January 11, 2005, the Legislative Body adopted Resolution No. CFD 2005-02, under which the Legislative Body approved the canvass of the votes.

Notice of Special Tax Lien: A Notice of Special Tax Lien was recorded in the real property records of Riverside County on January 25, 2005.

Ordinance Levying Special Taxes: The Board held the first reading of Ordinance No. 834 levying the Special Tax within the Community Facilities District on January 11, 2005, and held the second reading of the ordinance on January 25, 2005.

Resolution Authorizing Issuance of the Series 2012 Bonds: On July 31, 2012, the Legislative Body adopted Resolution No. _____ approving issuance of the Series 2012 Bonds to refund the Refunded Bonds.

Debt Service Schedule

The following table presents the annual debt service on the Series 2012 Bonds, assuming there are no redemptions other than mandatory sinking fund redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Indenture requires redemption of Series 2012 Bonds on any Interest Payment Date from the proceeds of any prepayments of Special Taxes. Additionally, the Series 2012 Bonds are subject to optional redemption on any Interest Payment Date. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes" and "THE SERIES 2012 BONDS — Redemption."

<i>Period ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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Source: De La Rosa & Co.

Redemption

Optional Redemption. The Series 2012 Bonds are subject to optional redemption, in whole on any date or in part in integral multiples of \$5,000 on any Interest Payment Date, on or after March 1, 2013, from any source of available funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Dates

Redemption Price

March 1, 2013 through March 1, 20__
September 1, 20__ and March 1, 20__
September 1, 20__ and thereafter

Mandatory Redemption from Special Tax Prepayments. The Series 2012 Bonds are subject to mandatory redemption, in whole or in part, on any Interest Payment Date on or after March 1, 2013, from and to the extent of any prepaid Special Taxes deposited in the Redemption Fund, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Dates

Redemption Price

March 1, 2013 through March 1, 20__
September 1, 20__ and March 1, 20__
September 1, 20__ and thereafter

Mandatory Sinking Fund Redemption. The Series 2012 Bonds maturing September 1, 20__ (the "Series 2012 Term Bonds") shall be subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 20__, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

***Sinking Fund
Redemption Date
(September 1)***

***Principal Amount
to be
Redeemed***

(Maturity)

If some but not all of the Series 2012 Term Bonds are redeemed pursuant to the optional redemption provisions of the Indenture described above, the principal amount of Series 2012 Term Bonds to be redeemed described above on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Series 2012 Term Bonds so optionally redeemed.

If some but not all of the Series 2012 Term Bonds are redeemed pursuant to the mandatory redemption from Special Tax Prepayments provisions of the Indenture, the principal amount of Series 2012 Term Bonds to be redeemed described above on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2012 Term Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the Community Facilities District.

Notice of Redemption. So long as the Series 2012 Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the Series 2012 Bonds and the registered Owners of the Series 2012 Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers

and the maturity date or dates of the Series 2012 Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Series 2012 Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Series 2012 Bonds are to be redeemed; (v) in the case of Series 2012 Bonds to be redeemed only in part, state the portion of such Series 2012 Bond which is to be redeemed; (vi) state the date of issue of the Series 2012 Bonds as originally issued; (vii) state the rate of interest borne by each Series 2012 Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Series 2012 Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Series 2012 Bond of notice of such redemption is not a condition precedent to redemption. Neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such Series 2012 Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of any optional redemption of Series 2012 Bonds, unless at the time such notice is given the Series 2012 Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the principal of and premium, if any, on the Series 2012 Bonds on the date fixed for redemption (the "Redemption Price"), and accrued interest on, the Series 2012 Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Community Facilities District shall not be required to redeem such Series 2012 Bonds. In the event a notice of redemption of Series 2012 Bonds contains such a condition and such moneys are not so received, the redemption of Series 2012 Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Series 2012 Bonds pursuant to such notice of redemption.

Effect of Redemption. When notice has been mailed as provided in the Indenture, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the Series 2012 Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Series 2012 Bonds shall be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Series 2012 Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Series 2012 Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Series 2012 Bonds shall be held in trust for the account of the Owners of the Series 2012 Bonds so to be redeemed without liability to such Owners for interest thereon.

Registration, Transfer and Exchange

Registration. The Trustee will keep sufficient books for the registration and transfer of the Series 2012 Bonds. The ownership of the Series 2012 Bonds will be established by the bond registration books held by the Trustee.

Transfer or Exchange. Whenever any Series 2012 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Series 2012 Bond or Series 2012 Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) Series 2012 Bonds for a period of 15 days next

preceding the date of any selection of the Series 2012 Bonds to be redeemed, or (ii) any Series 2012 Bonds chosen for redemption.

Additional Bonds for Refunding Purposes Only

The Community Facilities District may at any time after the issuance and delivery of the Series 2004 Bonds issue additional bonds (“Additional Bonds”) for refunding purposes only payable from the Net Special Tax Revenues and other amounts deposited in the Special Tax Fund and on a parity with the Series 2012 Bonds. The issuance of Additional Bonds is subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Indenture and any Supplement then in effect. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Issuance of Bonds; Additional Bonds — Conditions for the Issuance of Additional Bonds” for the conditions to the issuance of Additional Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS

Covenants and Warranties

The Community Facilities District will covenant in the Indenture to comply with the covenants and warranties therein, which will be in full force and effect upon the issuance of the Series 2012 Bonds. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Covenants and Warranty.”

Limited Obligations

The Series 2012 Bonds are limited obligations of the Community Facilities District, and the interest on and principal of and redemption premiums, if any, on the Series 2012 Bonds are payable solely from Net Special Tax Revenues (described below) to be levied annually against the property in the Community Facilities District, and other amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund.

Under the Indenture, the Community Facilities District has pledged to repay the Series 2012 Bonds from Net Special Tax Revenues and other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Net Special Tax Revenues consist of Special Tax Revenues less the amount required to pay Administrative Expenses. Special Tax Revenues are defined in the Indenture to include the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.

The Net Special Tax Revenues are the primary security for the repayment of the Series 2012 Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Series 2012 Bonds are amounts held by the Trustee in the Special Tax Fund, the Bond Fund and the Reserve Fund. Amounts held in the Rebate Fund and the Administrative Expense Fund are not available to pay the debt service on the Series 2012 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Reserve Fund.”

EXCEPT FOR THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND, NO OTHER FUNDS ARE PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE SERIES 2012 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY BUT ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE

RESERVE FUND UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE COUNTY, OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the Board of Supervisors of the County established the Community Facilities District on January 11, 2005 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the Community Facilities District. At a special election held on January 11, 2005, the owners of the property within the Community Facilities District authorized the Community Facilities District to incur indebtedness in an amount not to exceed \$32,500,000, and approved a rate and method of apportionment of Special Taxes (the "Rate and Method"), a copy of which is attached as APPENDIX A to this Official Statement, authorizing the Special Tax to be levied to repay indebtedness with respect to the Community Facilities District.

The Community Facilities District will covenant in the Indenture that, beginning with Fiscal Year 2012-13, the Community Facilities District will fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Series 2012 Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Series 2012 Bonds when due. See "SPECIAL RISK FACTORS — Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment of Special Taxes. All capitalized terms used in this section shall have the meaning in the Rate and Method, the text of which is set forth in full in APPENDIX A.

The Special Tax is levied and collected according to the Rate and Method, which provides the means by which the Board may annually levy the Special Taxes within the Community Facilities District, up to the Maximum Special Tax, and to determine the amount of the Special Tax that will need to be collected each Fiscal Year from the "Taxable Property" within the Community Facilities District.

The following is a synopsis of the provisions of the Rate and Method, which should be read in conjunction with the complete text of the Rate and Method, including its attachments, which is attached as Appendix A. The meaning of the capitalized terms used but not defined in this section are as set forth in Appendix A. *This section provides only a summary of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as Appendix A.*

Special Tax Requirement. The Rate and Method defines the "Special Tax Requirement" as that amount required in any Fiscal Year to pay the following:

- (i) annual debt service on all Outstanding Bonds due in the calendar year which commences in such Fiscal Year;

- (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds;
- (iii) Administrative Expenses (as defined in the Rate and Method);
- (iv) an amount equal to any anticipated shortfall due to Special Tax delinquencies in the prior Fiscal Year; and
- (v) any amount required to establish or replenish any reserve funds for the Bonds,

less a credit for funds available to reduce the annual Special Tax levy as determined by the Administrator.

Assignment to Land Use Category. Each Fiscal Year, commencing with the 2005-06 Fiscal Year, all Parcels of Taxable Property within the Community Facilities District will be classified as Developed Property, Approved Property, Undeveloped Property, Public Property, or Property Owner's Association Property, as described below.

"Developed Property" means all Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have been issued a building permit prior to the April 1st preceding the Fiscal Year in which the Special Tax is being levied.

"Approved Property" means all Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have not been issued a building permit prior to the April 1st preceding the Fiscal Year in which the Special Tax is being levied.

"Undeveloped Property" means all Taxable Property not classified as Developed Property, Approved Property, Public Property or Property Owner's Association Property that is not Exempt Property.

"Public Property" means, for any Fiscal Year, any Parcel within the boundary of the Community Facilities District which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County, or any other public agency, provided, however, that any Parcel leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act will be taxed and classified according to its use.

"Property Owner's Association Property" means any Parcel which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by a property owner association, including any master or sub-association.

"Taxable Property" means all Parcels in the Community Facilities District which are not exempt from the Special Tax under law or under the Rate and Method.

"Exempt Property" is defined as up to 628.30 Acres of Public Property and Property Owner's Association Property. Exempt Property status will be assigned by the Administrator in the chronological order in which property becomes Public Property and Property Owner's Association Property. After the limit of 628.30 Acres has been reached, the Maximum Special Tax obligation for any additional Public Property or Property Owner's Association Property will be subject to the levy of the Special Tax as provided for in the Rate and Method, to the extent permitted under the Act and applicable laws. However, if 10.11 acres are dedicated for the purpose of a school site, these 10.11 Acres will be exempt in addition to the 628.30 Acres.

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

Developed Property. Commencing Fiscal Year 2005-06, and each Fiscal Year thereafter, the Maximum Special Tax for each Parcel of Residential Property classified as Developed Property will be the greater of (i) the applicable Assigned Special Tax set or (ii) the Backup Special Tax. Commencing Fiscal Year 2005-06, and each Fiscal Year thereafter, the Maximum Special Tax for each Parcel of Non-Residential Property classified as Developed Property will be the Assigned Special Tax.

- *Assigned Annual Special Tax.* The Assigned Special Tax for each Parcel of Developed Property is determined by reference to Table 1 in the Rate and Method, which is as follows:

<i>Land Use Category</i>	<i>Taxable Unit</i>	<i>Assigned Special Tax Per Taxable Unit</i>
1-Residential Property (4,201 or more Sq.Ft.)	D/U	\$5,170
2-Residential Property (4,001 to 4,200 Sq.Ft.)	D/U	\$4,615
3-Residential Property (3,601 to 4,000 Sq.Ft.)	D/U	\$4,470
4-Residential Property (3,401 to 3,600 Sq.Ft.)	D/U	\$4,065
5-Residential Property (3,201 to 3,400 Sq.Ft.)	D/U	\$3,965
6-Residential Property (3,001 to 3,200 Sq.Ft.)	D/U	\$3,740
7-Residential Property (2,801 to 3,000 Sq.Ft.)	D/U	\$3,515
8-Residential Property (2,501 to 2,800 Sq.Ft.)	D/U	\$3,415
9-Residential Property (2,500 or less Sq Ft.)	D/U	\$3,170
10 - Non-Residential Property	Acre	\$14,445

- *Backup Special Tax.* The Backup Special Tax for each Parcel of Residential Property created by a specific Final Map will be determined by multiplying \$14,445 by the total Acreage of Taxable Property within the Final Map, excluding the Acreage associated with lots or Parcels that are or are expected to be classified as Non-Residential Property, Public Property and Property Owner's Association Property under the current land use entitlements in such Final Map, and dividing such amount by the total number of lots classified or expected to be classified as Residential Property within the specific Final Map.

If a single Final Map is recorded for Tract No. 28815 and a single Final Map is recorded for Tract No. 28816 at the same time, both Final Maps will be treated as a single Final Map for purposes of determining the Backup Special Tax.

Notwithstanding the foregoing, if the number of Parcels of Residential Property in a specific Final Map is subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax will be recalculated for the area that has been changed or modified using the methodology described in the preceding paragraph.

Approved Property. The Maximum Special Tax for each Parcel of Approved Property expected to be classified as Residential Property under the current land use entitlements will be the Backup Special Tax computed as set forth above. The Maximum Special Tax for each Parcel of Approved Property expected to be classified as Non-Residential Property under the current land use entitlements will be \$14,445 per Acre.

Public Property and/or Property Owner's Association Property that is not Exempt Property. The Maximum Special Tax for each Parcel of Public Property or Property Owner's Association Property that is not Exempt Property will be the amount determined by multiplying the Acreage of the Parcel by \$14,445 per Acre.

Undeveloped Property. The Maximum Special Tax for each Parcel of Undeveloped Property will be the amount determined by multiplying the Acreage of the Parcel by \$14,445 per Acre.

Method of Apportionment. Under the Rate and Method, commencing with Fiscal Year 2005-06 and for each following Fiscal Year, the Legislative Body will determine the Special Tax Requirement and will levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax will be levied each Fiscal Year as follows:

First. The Special Tax will be levied Proportionately on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax to satisfy the Special Tax Requirement.

Second. If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax will be levied Proportionately on each Parcel of Approved Property at up to 100% of the Maximum Special Tax for Approved Property.

Third. If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax will be levied Proportionately on each Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property.

Fourth. If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax to be levied on each Parcel of Developed Property whose Maximum Special Tax is derived by the application of the Backup Special Tax will be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel, as needed.

Fifth. If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax will be levied Proportionately on each Parcel of Public Property and/or Property Owner's Association Property that is not Exempt Property at up to 100% of the Maximum Special Tax.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other Parcel within the Community Facilities District.

Appeals. Any owner of a Parcel claiming that the amount or application of the Special Tax levied on the Parcel is not correct and requesting a refund may file a written notice of appeal with the Administrator after the Special Tax in dispute has been paid but, not later than 12 months after the mailing of the property tax bill on which the Special Tax appears. The Administrator will promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, convene the CFD special tax review board and decide the appeal. This procedure will be exclusive and its exhaustion by any property owner will be a condition precedent to any legal action by such owner.

Full Prepayment of Annual Special Taxes. The Maximum Special Tax obligation may only be prepaid and permanently satisfied for a Parcel of Public Property, Property Owner's Association Property, Developed Property, Approved Property or Undeveloped Property for which a building permit has been issued, provided that the terms set forth under the Rate and Method are satisfied, including (among others) the following conditions:

- A prepayment may be made only if there are no delinquent Special Taxes with respect to such Parcel at the time of prepayment.
- No Special Tax prepayment will be allowed unless the amount of Maximum Special Taxes that may be levied on all Parcels of Taxable Property after the proposed prepayment will be at least

1.1 times maximum annual debt service on the Bonds that will remain outstanding after the prepayment plus estimated annual Administrative Expenses.

The Prepayment Amount is generally calculated as the amount of outstanding Bonds to be redeemed with the Special Tax prepayment, plus the applicable Bond redemption premium, interest, and administrative fees and expenses, and less a reserve fund credit, all as set forth in further detail in Appendix A.

Partial Prepayment of Annual Special Taxes. The Maximum Special Tax obligation on a Parcel of Developed Property may be partially prepaid in increments of \$5,000.

The partial prepayment amount is generally calculated as the full Prepayment Amount multiplied by the percent by which the owner of the Parcels is partially prepaying the Maximum Special Tax obligation, all as set forth in further detail in Appendix A.

Duration of Special Tax Levy. Special Taxes will be levied for the period necessary to satisfy the Special Tax Requirement, but in no event may it be levied after Fiscal Year 2035-36 or the stated maturity of the Bonds, whichever is sooner.

Collection and Application of Special Taxes. The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as ad valorem property taxes. The Community Facilities District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the Community Facilities District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the Community Facilities District's share of such taxes (including the Special Taxes) to the Community Facilities District, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the Community Facilities District in the County Treasurer's Investment Pool (the "Pool"). If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that the Special Taxes could be temporarily unavailable to the Community Facilities District.

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

The Community Facilities District will make certain covenants in the Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the Community Facilities District's ability to collect sufficient Special Taxes to pay debt service on the Series 2012 Bonds and Administrative Expenses when due. The Community Facilities District will covenant in the Indenture not to initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Series 2012 Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Series 2012 Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Series 2012 Bonds. See "SPECIAL RISK FACTORS — Proposition 218."

Although the Special Taxes constitute liens on taxed parcels within the Community Facilities District, they do not constitute a personal indebtedness of the owners of property within the Community Facilities District. In addition to the obligation to pay Special Taxes, properties in the Community Facilities District are subject to other assessments and special taxes as set forth under Table 2 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in the Community Facilities District. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments" herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Under the terms of the Indenture, all Special Tax Revenues received by the Community Facilities District are to be deposited in the Special Tax Fund; provided, however, that with respect to any Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of the Series 2012 Bonds in accordance with the provisions of the Indenture, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund.. See "— Special Tax Fund" and APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Proceeds of Foreclosure Sales. The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the Community Facilities District resulting from a landowner's failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Net Special Tax Revenues pledged to the payment of principal and interest on the Series 2012 Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the Community Facilities District of Special Taxes in an amount which is less than the Special Tax levied, the Board of Supervisors of the County, as the legislative body of the Community Facilities District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the Community Facilities District will covenant in the Indenture with and for the benefit of the Owners of the Series 2012 Bonds that the Community Facilities District will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$2,500 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings. However, notwithstanding the foregoing, the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Additionally, notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost. See APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Other Covenants of the Community Facilities District" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Series 2012 Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the County and the Community Facilities District. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" herein. Although the Act authorizes the Community Facilities District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the Community Facilities District or the County any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Estimated Debt Service Coverage

Special Taxes will be levied each year in an amount equal to the Special Tax Requirement determined in accordance with the Rate and Method. The Special Tax Requirement is calculated to include an amount equal to the debt service on the Series 2012 Bonds in the ensuing Bond Year plus the amount required to maintain the Reserve Fund at the Reserve Requirement plus the amount needed to pay Administrative Expenses, less the amount of earnings on deposit in the Reserve Fund in excess of the Reserve Requirement. The Special Tax Requirement in Fiscal Year 2012-13 is projected to total approximately \$1,544,890, with \$70,000 of this amount budgeted to pay Administrative Expenses.

The Special Tax Requirement in Fiscal Year 2012-13 is projected to be approximately 64% of the Maximum Special Tax rates. However, pursuant to Section 53321(d) of the California Government Code, Special Taxes levied on any parcel of property used for private residential purposes in the Community Facilities District may not be increased by more than 10% in any fiscal year as a consequence of delinquency or default by the owner of any other parcel within the Community Facilities District. As a result, it is possible that the Community Facilities District may not be able to levy Special Taxes at the full amount of the Maximum Special Tax rates, as a result of high delinquencies. Assuming no delinquencies, the Special Taxes that may be levied within the Community Facilities District are at least 110% of maximum annual debt service on the Bonds plus estimated Administrative Expenses in each of the years the Bonds are outstanding.

Special Tax Fund

The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of the Series 2012 Bonds in accordance with the provisions of the Indenture, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund.

Disbursements. Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount

specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall make the following transfers in the following order of priority:

Bond Fund. The Trustee shall withdraw from the Special Tax Fund and transfer to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date; and

Reserve Fund. After having made any transfers required to be made pursuant to the preceding paragraph, the Trustee shall withdraw from the Special Tax Fund and transfer to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Bond Fund

The Trustee will hold the Bond Fund (as defined in the Indenture) for the benefit of the Bond Owners.

On each Interest Payment Date, the Trustee will withdraw from the Bond Fund and pay to the Bond Owners the principal, if any, of and interest on the Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

In the event that, on an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall apply available funds therein in accordance with the provisions of the Indenture relating to the application of Net Special Tax Revenues upon a default. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Events of Default and Remedies of Bond Owners — Application of Net Special Tax Revenues After Default.”

Redemption Fund

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

Reserve Fund

Certain proceeds of the Series 2012 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). Reserve Requirement is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with proceeds of subsequently issued Bonds), (b) the Maximum Annual Debt Service on the Bonds and (c) 125% of the Average Annual Debt Service on the Bonds.

If a portion of Bonds are to be redeemed, a proportionate amount in the Reserve Fund (determined on the basis of the principal of such Bonds to be redeemed and the original principal of such Bonds) will be applied to the redemption of such Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed).

Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds or, in accordance with the provisions of the Indenture, for the purpose of redeeming Bonds. Transfers shall be made from the Reserve Fund to the Bond Fund in the event of a deficiency in the Bond Fund, in accordance with the Indenture.

Moneys in the Reserve Fund will be invested and deposited as described in the Indenture. Any interest or profits or other income received with respect to investments held in the Reserve Fund will be transferred to the Special Tax Fund, as directed by the Indenture, to the extent amounts on deposit on the Reserve Fund exceed the Reserve Requirement.

See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Security For Bonds; Flow of Funds; Investments — Investment of Moneys” for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

Administrative Expense Fund

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

Moneys in the Administrative Expense Fund will not be pledged to payment of debt service on the Bonds.

THE COMMUNITY FACILITIES DISTRICT

General Description of the Community Facilities District

The Community Facilities District is located in the northwestern portion of the County, in an unincorporated area approximately one mile south of the 91 Freeway and approximately three miles east of the I-15 Freeway. The property is generally surrounded by City of Corona to the west, an unincorporated community of Home Gardens to the northwest, the City of Riverside to the north, unincorporated Riverside County area to the south and east, and Lake Mathews just over a mile to the southeast.

The Community Facilities District is situated along Lakepointe Drive and Skyridge Drive, and extends for nearly two miles between Indiana Avenue (nearby to the northwest) and La Sierra Avenue (nearby to the southeast). All of the taxable property in the Community Facilities District is being developed for residential use as single-family detached homes. As of June 30, 2012, there were 432 completed single family detached homes which had been conveyed to individual homeowners, 30 additional parcels owned by Richmond American Homes of Maryland, Inc., the developer within the Community Facilities District, for which building permits had been obtained as of April 1, 2012 and which are classified as “Developed Property” for the Fiscal Year 2012-13 Special Tax levy, and 40 parcels of Approved Property owned by Richmond American.

A portion of the proceeds of the bonds originally issued by the Community Facilities District was used to acquire and construct various public facilities authorized to be acquired or constructed within the Community Facilities District. These proceeds have all been expended and the public improvements to be financed by the Community Facilities District are complete. The completed improvements include the acquisition and construction of certain roads and appurtenant drainage facilities, water and sewer facilities, flood control and storm water drainage facilities and related grading as required as a condition of development of the property within the Community Facilities District.

Estimated Direct and Overlapping Indebtedness

Within the boundaries of the Community Facilities District are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the Community Facilities District and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the Community Facilities District. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the Community Facilities District for Fiscal Year 2011-12 is shown in Table 1 below.

**TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
DIRECT AND OVERLAPPING DEBT SUMMARY**

I.	ASSESSED VALUE						
	2012-13 Secured Roll Assessed Valuation ⁽¹⁾						\$203,414,917
II.	SECURED PROPERTY TAX ROLL						
	<u>Description of Tax Bill</u>	<u>Type</u>	<u>Total Parcels Levied</u>	<u>Total Levy</u>	<u>% Applicable</u>	<u>Parcels in CFD 04-2</u>	<u>Levy Amount</u>
	General Purpose	1%	887,116	1,868,507,661	0.107%	504	\$ 1,993,461
	Alvord Unified School District (0.11845%)	GO	24,016	6,819,457	3.462	504	236,123
	Riverside Community College (0.01700%)	GO	251,828	11,660,875	0.291	504	33,888
	Metro Water East 1301999 (0.00370%)	GO	485,124	4,393,641	0.168	504	7,374
	Metro Water Standby West	WTR	247,129	3,490,975	0.135	511	4,718
	Flood Control NPDES - Santa Ana	BAA	365,775	2,427,864	0.070	448	1,695
	CSA #152 Street Lights	CSA	2,980	147,170	23.795	509	35,019
	CSA #152 Street Sweeping	CSA	58,796	1,512,888	1.485	509	22,467
	CFD 04-2 Lakehills Crest	CFD	458	1,716,296	100.000	458	<u>1,716,296</u>
	Fiscal Year 2011-2012 Total Property Tax Liability						\$ 4,051,041
	Total Property Tax as a Percentage of 2012-13 Assessed Valuation						1.99%
III.	LAND SECURED BOND INDEBTEDNESS						
	<u>Outstanding Direct and Overlapping Bonded Debt</u>	<u>Type</u>	<u>Issued</u>	<u>Outstanding</u>	<u>% Applicable</u>	<u>Parcels in CFD 03-1</u>	<u>Amount of Debt</u>
	CFD 04-2 Lakehills Crest	CFD	\$25,820,000	\$21,320,000*	100.000%	511	<u>\$21,320,000*</u>
	Total Land Secured Bonded Debt⁽²⁾						\$21,320,000*
	<u>Authorized and Unissued Direct and Overlapping Bonded Debt</u>	<u>Type</u>	<u>Authorized</u>	<u>Unissued</u>	<u>% Applicable</u>	<u>Parcels in CFD 03-1</u>	<u>Applicable</u>
	CFD 04-2 Lakehills Crest	CFD	\$25,820,000	\$0	100.000%	511	<u>\$ 0</u>
	Total Unissued Land Secured Indebtedness⁽²⁾						0
	Total Outstanding and Unissued Land Secured Indebtedness						\$21,225,000
IV.	GENERAL OBLIGATION BOND INDEBTEDNESS						
	<u>Outstanding Direct and Overlapping Bonded Debt</u>	<u>Type</u>	<u>Issued</u>	<u>Outstanding</u>	<u>% Applicable</u>	<u>Parcels in CFD 03-1</u>	<u>Amount of Debt</u>
	Metropolitan Water District East	GO	\$850,000,000	\$196,545,000	0.009870%	511	\$ 19,399
	Riverside Community College District Debt Service	GO	264,999,278	230,858,371	0.273787	504	632,060
	Alvord Unified School District	GO	160,000,000	143,320,000	3.434638	504	<u>4,922,523</u>
	Total General Obligation Bonded Debt⁽²⁾						\$ 5,554,583
	<u>Authorized and Unissued Direct and Overlapping Indebtedness</u>	<u>Type</u>	<u>Authorized</u>	<u>Unissued</u>	<u>% Applicable</u>	<u>Parcels in CFD 03-1</u>	<u>Applicable</u>
	Metropolitan Water District East	GO	\$850,000,000	\$0	0.009870%	511	\$ 0
	Riverside Community College District Debt Service	GO	350,000,000	85,000,722	0.273787	504	232,721
	Alvord Unified School District	GO	196,000,000	36,000,000	3.434638	504	<u>1,236,470</u>
	Total Unissued General Obligation Indebtedness⁽²⁾						\$ 1,469,191
	Total Outstanding and Unissued General Obligation Indebtedness						\$ 7,023,774
	TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT						\$26,874,583*
	TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING INDEBTEDNESS						\$28,343,774*
IV.	Ratios to 2013-13 Assessed Valuation						
	Outstanding Land Secured Bonded Debt		9.54:1*				
	Total Outstanding Bonded Debt		7.57:1*				

* Preliminary, subject to change.

⁽¹⁾ Fiscal Year 2012-13 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.

⁽²⁾ Additional bonded debt or available bond authorization may exist but is not shown because a tax was not levied for the referenced fiscal year.

Source: Albert A. Webb Associates.

In addition to the bonded indebtedness set forth in Table 1, new community facilities districts or special assessment districts may be formed which include all or a portion of the Community Facilities District,

and, upon approval of the registered voters or landowners in such districts, as applicable, may issue more bonds and levy additional special taxes or other taxes and assessments. In addition to the Special Taxes, the property owners in the Community Facilities District will be required to pay the general *ad valorem* property taxes for their parcels.

Expected Tax Burden

Table 2 below sets forth an estimated property tax bill for the average residential unit size in the Community Facilities District. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2012-13. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2012-13, the projected total effective tax rate range for unit sizes in the Community Facilities District is approximately 1.81% of assessed value to approximately 1.99% of assessed value.

**TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SAMPLE PROPERTY TAX BILL
ESTIMATED FISCAL YEAR 2012-13 TAX OBLIGATION
FOR AN INDIVIDUALLY OWNED SAMPLE DEVELOPED PROPERTY**

CFD Tax Category	Home Size	Under 2,500 S.F.	2,501 to 2,800 S.F.	2,801 to 3,000 S.F.	3,001 to 3,200 S.F.	3,201 to 3,400 S.F.	3,401 to 3,600 S.F.	3,601 to 4,000 S.F.	4,001 to 4,200 S.F.	Over 4,200 S.F.
Assessed Value as of June 2012 ⁽¹⁾		\$ 484,141.92	\$ 416,348.44	\$ 421,469.23	\$ 386,413.87	\$ 356,749.07	\$ 382,858.00	\$ 354,750.00	\$ 366,536.52	\$ 369,131.67
Ad Valorem Property Taxes		\$ 4,841.42	\$ 4,163.48	\$ 4,214.69	\$ 3,864.14	\$ 3,567.49	\$ 3,828.58	\$ 3,547.50	\$ 3,665.37	\$ 3,691.32
GENERAL PURPOSE		573.47	493.16	499.23	457.71	422.57	453.50	420.20	434.16	437.24
ALVORD UNIFIED SCHOOL DISTRICT (0.11845%)		82.30	70.78	71.65	65.69	60.65	65.09	60.31	62.31	62.75
RIVERSIDE COMMUNITY COLLEGE (0.01700%)		17.91	15.40	15.59	14.30	13.20	14.17	13.13	13.56	13.66
METRO WATER EAST 1301999 (0.00370%)										
Total General Property Taxes		\$ 5,515.10	\$ 4,742.82	\$ 4,801.16	\$ 4,401.84	\$ 4,063.91	\$ 4,361.34	\$ 4,041.14	\$ 4,175.40	\$ 4,204.97
Assessment, Special Taxes & Parcel Charges ⁽²⁾										
METRO WATER STANDBY WEST		\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22
FLOOD CONTROL NPDES - SANTA ANA		3.76	3.76	3.76	3.76	3.76	3.76	3.76	3.76	3.76
CSA #152 STREET LIGHTS		68.80	68.80	68.80	68.80	68.80	68.80	68.80	68.80	68.80
CSA #152 STREET SWEEPING		44.14	44.14	44.14	44.14	44.14	44.14	44.14	44.14	44.14
CFD 04-2 LAKEHILLS CREST ⁽³⁾		3,805.08	3,396.60	3,289.88	2,991.80	2,918.20	2,752.60	2,587.00	2,513.40	2,333.10
Total Assessments & Parcel Charges		\$ 3,931.00	\$ 3,522.52	\$ 3,415.80	\$ 3,117.72	\$ 3,044.12	\$ 2,878.52	\$ 2,772.92	\$ 2,639.32	\$ 2,459.02
Projected Total Property Tax		\$ 9,446.10	\$ 8,265.34	\$ 8,216.96	\$ 7,519.56	\$ 7,108.03	\$ 7,239.86	\$ 6,754.06	\$ 6,814.72	\$ 6,663.99
Projected Effective Tax Rate		1.95%	1.99%	1.95%	1.95%	1.99%	1.89%	1.90%	1.86%	1.81%

⁽¹⁾ Average assessed values for homes owned by individuals, per tax rate category, from the 2012-13 Certified Roll, Riverside County Assessor's Office.
⁽²⁾ Rate assigned is average per parcel amount as taxed in Fiscal Year 2011-12.

⁽³⁾ The CFD 04-2 Special Tax Rate is based on projected Fiscal Year 2012-13 Special Tax for the Community Facilities District of \$1,544,889.58.
 Source: Riverside County Assessor, Albert A. Webb Associates.

Principal Taxpayers

In Fiscal Year 2012-13, approximately 94.87% of the Special Taxes are projected to be levied on parcels of developed single family detached residential property which have been conveyed to individual homeowners, and approximately 5.13% on parcels of Developed Property owned by Richmond American, the developer within the Community Facilities District. Other than Richmond American, no other property tax owner in the Community Facilities District are projected to be responsible for more than 0.49% of the Special Tax levy in Fiscal Year 2012-13. A summary of the top taxpayers within the Community Facilities District is set forth in Table 3 below.

TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
PROJECTED TOP TAXPAYERS
FISCAL YEAR 2012-13

Owner	No. of Parcels ⁽¹⁾	Assessed Value ⁽²⁾	% of Assessed Value ⁽²⁾	Estimated Series 2012 Bonds ⁽³⁾	Other Overlapping Debt	Aggregate Outstanding & Proposed Debt [*]	Value- to-Lien Ratio [*]	Current Maximum Special Tax	Percent of Maximum Special Tax	Projected Fiscal Year Special Tax ⁽⁴⁾	% of Applied Special Tax
Richmond American Homes of Maryland Inc	30	\$ 8,266,936	4.20%	\$ 1,092,883	\$ 225,742	\$ 1,318,626	6.27:1	\$ 131,770	5.93%	\$ 79,192	5.13%
Individual Owner	2	967,000	0.49	105,023	26,406	131,428	7.36:1	10,340	0.47	7,610	0.49
Individual Owner	2	861,624	0.44	97,913	23,528	121,441	7.10:1	9,640	0.43	7,095	0.46
Individual Owner	2	665,802	0.34	75,974	18,181	94,154	7.07:1	8,779	0.40	5,505	0.36
SUBTOTAL	36	\$ 10,761,362	5.47%	\$ 1,371,792	\$ 293,857	\$ 1,665,649	6.46:1	\$ 160,529	7.23%	\$ 99,403	6.43%
ALL OTHERS	435	185,838,035	94.53%	19,948,208	5,074,617	25,022,825	7.43:1	2,061,141	92.77	1,445,487	93.57
TOTAL	471	\$ 196,599,397	100.00%	\$ 21,320,000	\$ 5,368,474	\$ 26,688,474	7.37:1	\$ 2,221,670	100.00%	\$ 1,544,890	100.00%

* Preliminary, subject to change

(1) Reflects the number of parcels projected to be levied for FY 2012-13, not including 40 Approved Properties not projected to be levied.

(2) Fiscal Year 2012-13 Certified Roll Assessed Valuation, Riverside County Assessor's Office

(3) Series 2012 Bond allocation based on projected Fiscal Year 2012-13 Special Tax for the Community Facilities District of \$1,544,889.58.

(4) Projected Special Tax is based on preliminary bond sizing information provided by the Underwriter on July 12, 2012.

Source: Albert A. Webb Associates.

Delinquency History

Table 4 below summarizes the Special Tax delinquencies for property within the boundaries of the Community Facilities District for Fiscal Years 2007-08 through 2011-12. The highest fiscal year end delinquency rate in any of these years was 11.26% for Fiscal Year 2007-08 as of September 30, 2009, during the real estate market slowdown which began in 2007. See “SPECIAL RISK FACTORS — Risks Relating to Current Market Conditions” and “— Economic Uncertainty.” However, delinquency rates within the Community Facilities District have declined significantly since that time. The delinquency rate for Fiscal Year 2011-12 was 2.78% as of June 30, 2012. Currently, there are no foreclosure actions in process in the Community Facilities District.

**TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX DELINQUENCY HISTORY
Fiscal Years 2007-08 through 2011-12**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies as of September 30 of Fiscal Year</i>			<i>Delinquencies as of June 30, 2012</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2007-08	\$1,994,209.98	512	61	\$224,535.00	11.26%	0	\$ 0.00	0.00%
2008-09	2,120,307.96	512	44	175,247.50	8.27	0	0.00	0.00
2009-10	2,065,058.64	512	18	74,421.62	3.60	1	1,982.50	0.10
2010-11	1,816,437.70	436	8	32,143.94	1.77	2	6,109.96	0.34
2011-12	1,716,296.10	458	N/A	N/A	N/A	17	47,673.82	2.78

Source: Albert A. Webb Associates.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The Community Facilities District does not participate in the County’s Teeter Plan and, as a result, the Community Facilities District receives only the Special Taxes actually collected. Penalties and interest received on the collection of delinquent Special Taxes are also pledged under the Indenture to repay the Series 2012 Bonds.

Estimated Assessed Value-to-Lien Ratios

Table 5 below sets forth the net assessed value and the annual change in net assessed value for fiscal years 2006-07 through 2012-13.

**TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
ANNUAL CHANGE IN ASSESSED VALUE**

<i>Year</i>	<i>Taxable Parcels</i>	<i>Taxable Property Net Assessed Value⁽¹⁾</i>	<i>% Change</i>
2007-08	512	\$168,288,407	N/A
2008-09	512	225,598,603	34.05%
2009-10	512	207,820,954	-7.88
2010-11 ⁽²⁾	511	219,553,316	5.65
2011-12	511	204,058,897	-7.06
2012-13	511	203,414,917	-0.32

⁽¹⁾ Net assessed values as of January 1 of each year from the County Assessor's Roll.

⁽²⁾ One parcel dedicated to Alvord Unified School District and marked exempt.

Source: Riverside County Assessor.

Table 6 below sets forth the estimated assessed value-to-lien ratios for various categories of property ownership within the Community Facilities District based upon ownership status as of June 30, 2012 and the assessed values included on the Fiscal Year 2012-13 Assessor's roll. The assessed value of the taxable parcels within the Community Facilities District for Fiscal Year 2012-13 is \$203,414,917. The estimated assessed value-to-lien ratio of the property within the Community Facilities District based upon the principal amount of the Series 2012 Bonds, overlapping debt payable from other taxes and assessments levied on the property within the Community Facilities District, and the assessed values included on the 2012-13 Assessor's roll is 9.57*-to-1. Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel's market value. No assurance can be given that any of the value-to-lien ratios in Table 6 will be maintained during the period of time that the Series 2012 Bonds are outstanding. The Community Facilities District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See "SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios."

Table 7 below sets forth the estimated value-to-lien ratios for parcels within the Community Facilities District by various ranges based upon the direct and overlapping debt information included in Table 1.

* Preliminary, subject to change.

TABLE 6
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
BY PROPERTY CLASSIFICATION

Classification	Number of Parcels	Assessed Value ⁽¹⁾	% of Assessed Value ⁽²⁾	Estimated Series 2012 Bonds ⁽³⁾	Other Overlapping Debt	Aggregate Outstanding Proposed Debt	Value-to-Lien Ratio*	Current Maximum Special Tax	% of Maximum Special Tax	Projected Fiscal Year 2012-13 Special Tax	% of Applied Special Tax
Developed Individually Owned	441	\$ 188,332,461	92.59%	\$ 20,227,117	\$ 5,142,731	\$ 25,369,848	7.42:1	\$ 2,089,901	87.18%	\$ 1,465,697	94.87%
Developed Developer Owned	30	8,266,936	4.06	1,092,883	225,742	1,318,626	6.27:1	131,770	5.50	79,193	5.13
Subtotal Developed Properties	471	\$ 196,599,397	96.65	\$ 21,320,000	\$ 5,368,474	\$ 26,688,474	7.37:1	\$ 2,221,670	92.68%	\$ 1,544,890	100.00%
Approved Developer Owned	40	6,815,520	3.35	0	186,109	186,109	36.62:1	175,586	7.32	0	0.00
TOTAL	511	\$ 203,414,917	100.00%	\$ 21,320,000	\$ 5,554,583	\$ 26,874,583	7.57:1	\$ 2,397,256	100.00%	\$ 1,544,890	100.00%

* Preliminary, subject to change.

(1) Fiscal Year 2012-13 Certified Roll Assessed Valuation, Riverside County Assessor's Office

(2) Series 2012 Bond allocation based on projected Fiscal Year 2012-13 Special Tax for the Community Facilities District of \$1,544,889.58.

(3) Projected Special Tax is based on preliminary bond sizing information provided by the Underwriter on July 12, 2012.

Source: Albert A. Webb Associates.

TABLE 7
COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
BY RANGES

Value-to-Lien	Parcels ⁽¹⁾	% of Total Parcels	Assessed Value ⁽²⁾	% of Assessed Value	Projected Fiscal Year 2012-13 Special Tax	% of Applied Special Tax	Share of Aggregate Outstanding & Proposed Debt*	% Share of Aggregate Outstanding & Proposed Debt*
Less than 5:1	17	3.61%	\$ 44,951	2.91%	\$ 2,896,596	1.47%	\$ 699,430	2.62%
Between 5 - 7:1	115	24.42	396,328	25.65	45,667,698	23.23	6,716,489	25.17
Between 7 - 9:1	324	68.79	1,060,828	68.67	140,338,795	71.38	18,471,973	69.21
Greater than 9:1	15	3.18	42,783	2.77	7,696,308	3.91	800,582	3.00
Totals	471	100.00%	\$ 1,544,890	100.00%	\$ 196,599,397	100.00%	\$ 26,688,474	100.00%

* Preliminary, subject to change.

(1) Reflects the number of levied parcels for Fiscal Year 2012-13, not including 40 Approved Properties not projected to be levied.

(2) Projected Special Tax is based on preliminary bond sizing information provided by the Underwriter on July 12, 2012.

Source: Albert A. Webb Associates.

SPECIAL RISK FACTORS

The purchase of the Series 2012 Bonds involves significant investment risks and, therefore, the Series 2012 Bonds may not be suitable investments for many investors. The Series 2012 Bonds are not rated by any nationally recognized rating agency. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Series 2012 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the Series 2012 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" and "— Limited Secondary Market" below.

Risks of Real Estate Secured Investments Generally

The Owners of the Series 2012 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

Risks Related to Current Market Conditions

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Beginning in 2007, home developers, appraisers and market absorption consultants have reported weak housing market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. One or more of these factors may negatively impact home values in the Community Facilities District and affect the willingness or ability of taxpayers to pay their Special Taxes when due.

Economic Uncertainty

The Series 2012 Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates are approximately 11.8% for the County as of May 2012 (not seasonally adjusted) as compared to approximately 13.6% for calendar year 2011 (not seasonally adjusted) and are approximately 10.4% (not seasonally adjusted) for the State as of May 2012 as compared to approximately 11.7% for calendar year 2011 (not seasonally adjusted). The Community Facilities District cannot predict how long these conditions will last or whether to what extent they may affect the ability of homeowners to pay Special Taxes or the marketability of the Series 2012 Bonds.

Limited Obligations

The Series 2012 Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the credit nor the taxing power of the Community Facilities District or the County is pledged for the payment of the Series 2012 Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Series 2012 Bonds may compel the exercise of any taxing power by the Community Facilities District or the County or force the forfeiture of any County or Community Facilities District property. The principal of, premium, if any, and interest on the Series 2012 Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County's or the Community Facilities District's property or upon any of the County's or the Community Facilities District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture.

Insufficiency of Special Taxes

The principal source of payment of principal of and interest on the Series 2012 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Series 2012 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the Series 2012 Bonds, and certainly not a direct relationship.

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

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

Except as set forth above under "SECURITY FOR THE SERIES 2012 BONDS — Special Taxes" and " — Rate and Method" herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE SERIES 2012 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Series 2012 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See "SECURITY FOR THE SERIES 2012 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

In addition, the Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See "SECURITY FOR THE SERIES 2012 BONDS — Special Taxes — *Rate and Method of Apportionment*" herein.

Depletion of Reserve Fund

The Reserve Fund is maintained in an amount equal to the Reserve Requirement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Reserve Fund." Funds in a Reserve Fund may be used to pay principal of and interest on the Series 2012 Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in the Community Facilities District is not sufficient. If the Reserve Fund is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the Series 2012 Bonds. However, no replenishment of the Reserve Fund from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum tax rates, together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Fund will be depleted and not replenished by the levy of the Special Taxes.

Natural Disasters

The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity, wildfires and other natural disasters represents a potential risk for damage to buildings, roads, bridges and property within the Community Facilities District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. According to records available from the State of California Department of Conservation and the United States Geological Service, the property within the Community Facilities District is not within an Alquist-Priolo Earthquake Fault Zone. However, Southern California is a seismically active area and the land within the Community Facilities District will likely be subject to seismic shaking at some time in the future.

No assurance can be given regarding the extent to which any future natural disasters may impact property in the Community Facilities District.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the Community Facilities District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the Community Facilities District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Hazardous Substances

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel 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 any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

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

Parity Taxes and Special Assessments

Property within the Community Facilities District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the Community Facilities District. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the County and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" below.

Neither the County nor the Community Facilities District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the Community Facilities District. In addition, the landowners within the Community Facilities District may, without the consent or knowledge of the County, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the Community Facilities District described herein.

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the parcel is sufficient, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The County has caused a Notice of Special Tax Lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the Community Facilities District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the

seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Series 2012 Bonds are derived, are customarily billed to the properties within the Community Facilities District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*," for a discussion of the provisions which apply, and procedures which the Community Facilities District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessments and limitations on the Community Facilities District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the Board of Supervisors of the County as the legislative body of the Community Facilities District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Series 2012 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Series 2012 Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Series 2012 Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Series 2012 Bond. Such a practice would decrease the cash flow available to the Community Facilities District to make payments with respect to other Series 2012 Bonds then outstanding; and, unless the practice was limited by the Community Facilities District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Series 2012 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Series 2012 Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the Community Facilities District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Series 2012 Bonds unless the Community Facilities District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding Series 2012 Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the Community Facilities District has no recourse against the owner.

Property Values; Value-to-Lien Ratios

The value of the property within the Community Facilities District is a critical factor in determining the investment quality of the Series 2012 Bonds. If a property owner is delinquent in the payment of Special Taxes, the Community Facilities District's only remedy is to commence foreclosure proceedings against the

delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events may adversely impact the security underlying the Special Taxes. Although there has been no significant decline in assessed property values in the Community Facilities District during the downturn in the real estate market that began in 2007, there is no assurance that assessed values will not decline in the future. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Assessed Value-to-Lien Ratios" herein.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the Riverside County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that the estimated value-to-lien ratios as set forth in Table 7 will be maintained over time. As discussed herein, many factors which are beyond the control of the Community Facilities District could adversely affect the property values within the Community Facilities District. The Community Facilities District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in the Community Facilities District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the Community Facilities District, or both, could result in a lowering of the value-to-lien ratio of the property in the Community Facilities District.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Tax — *Proceeds of Foreclosure Sales.*"

FDIC/Federal Government Interests in Properties

The ability of the Community Facilities District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

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

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that

ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution “this Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding.” In the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the Community Facilities District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within the Community Facilities District becoming owned by the federal government, federal government entities or federal government sponsored entities, see “— Insufficiency of Special Taxes.”

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

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Beneficial Owners of the Series 2012 Bonds. The payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*” In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in

payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the "Bankruptcy Reform Act") included a provision which excepts from the Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the Glasply holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as "administrative expenses," rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

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

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

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Moreover, the ability of the Community Facilities District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) and by the laws of the State relating to judicial foreclosure.

No Acceleration Provision

The Series 2012 Bonds do not contain a provision allowing for the acceleration of the Series 2012 Bonds in the event of a payment default or other default under the Series 2012 Bonds or the Indenture.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS — Tax Exemption," the interest on the Series 2012 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Bonds as a result of a failure of the Community Facilities District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Should such

an event of taxability occur, the Series 2012 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Indenture.

Limitations on Remedies

Remedies available to the Beneficial Owners of the Series 2012 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Series 2012 Bonds or to preserve the tax-exempt status of the Series 2012 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series 2012 Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the Series 2012 Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2012 Bonds or, if a secondary market exists, that the Series 2012 Bonds can be sold at all or for any particular price. Although the Community Facilities District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proposition 218

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the Community Facilities District to pay the principal of and interest on the Series 2012 Bonds as described below.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Series 2012 Bonds.

It may be possible, however, for voters or the Board of Supervisors of the County acting as the legislative body of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2012 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Series 2012 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the Community Facilities District will covenant in the Indenture that it will not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Series 2012 Bonds. The Community Facilities District also will covenant in the Indenture that, if an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Series 2012 Bonds, the Community Facilities District will, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Series 2012 Bonds. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

Ballot Initiatives

Articles XIIC and XIID were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the County, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the Community Facilities District to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Failure to Develop Properties” herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), by and between the Community Facilities District and the Trustee, the Community Facilities District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the Community Facilities District. The Annual Report to be filed by the Community Facilities District is to be filed not later than April 1 of each year, beginning April 1, 2013, and is to include audited financial statements of the Community Facilities District, if any. The full text of the Continuing Disclosure

Agreement is set forth in APPENDIX D — “FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT.”

Notwithstanding any provision of the Indenture, failure of the Community Facilities District to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Indenture. However, any holder of the Series 2012 Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the Community Facilities District to comply with its obligations with respect to the Continuing Disclosure Agreement.

During the last five calendar years the Community Facilities District has not failed to comply in all material respects with its previous undertakings with regard to Rule 15c2-12.

LEGAL MATTERS

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2012 Bonds is less than the amount to be paid at maturity of such Series 2012 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2012 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2012 Bonds is the first price at which a substantial amount of such maturity of the Series 2012 Bonds is sold to the public (excluding Series 2012 Bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012 Bonds accrues daily over the term to maturity of such Series 2012 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2012 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012 Bonds. Beneficial owners of the Series 2012 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2012 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012 Bonds is sold to the public.

Series 2012 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Series 2012 Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Series 2012 Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Series 2012 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Series 2012 Bonds

should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 Series 2012 Bonds. The Community Facilities District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and 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), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012 Bonds. Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2012 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Community Facilities District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Community Facilities District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2012 Bonds ends with the issuance of the Series 2012 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Community Facilities District or the Beneficial Owners regarding the tax-exempt status of the Series 2012 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Community Facilities District and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection

with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Community Facilities District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012 Bonds, and may cause the Community Facilities District or the beneficial owners to incur significant expense.

The proposed form of Bond Counsel's opinion with respect to the Series 2012 Bonds is attached as APPENDIX E.

Litigation

No litigation is pending or threatened concerning the validity of the Series 2012 Bonds, the pledge of Special Taxes to repay the Series 2012 Bonds, the powers or authority of the Community Facilities District with respect to the Series 2012 Bonds, or seeking to restrain or enjoin development of the land within the Community Facilities District and a certificate of the Community Facilities District to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2012 Bonds.

Legal Opinion

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto and will accompany the Series 2012 Bonds. Certain legal matters will be passed upon for the County and the Community Facilities District by the County Counsel, and for the Community Facilities District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Series 2012 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Series 2012 Bonds as to matters related to this Official Statement.

No Rating

The Community Facilities District has not made and does not contemplate making application to any rating agency for the assignment of a rating of the Series 2012 Bonds.

Underwriting

The Series 2012 Bonds are being purchased by De La Rosa & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2012 Bonds at a price of \$_____ (being \$_____ aggregate principal amount thereof, less Underwriter's discount of \$_____ [plus/less] original issue [premium/discount] of \$_____). The purchase agreement relating to the Series 2012 Bonds provides that the Underwriter will purchase all of the Series 2012 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Series 2012 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Financial Interests

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and Financial Advisor are contingent upon the issuance and delivery of the Series 2012 Bonds. From time to time, Bond Counsel and Disclosure Counsel represent the Underwriter on matters unrelated to the Series 2012 Bonds.

Pending Legislation

The Community Facilities District is not aware of any significant pending legislation which would have material adverse consequences on the Series 2012 Bonds or the ability of the Community Facilities District to pay the principal of and interest on the Series 2012 Bonds when due.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2012 Bonds. Quotations and summaries and explanations of the Series 2012 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by an authorized representative of the Community Facilities District has been duly authorized by the Board of Supervisors of the County acting in its capacity as the legislative body of the Community Facilities District.

COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE

By: _____
County Executive Officer

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE

A Special Tax (all capitalized terms are defined in Section A. Definitions below), shall be applicable to each Parcel of Taxable Property located within the boundaries of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside. The amount of Special Tax to be levied each Fiscal Year, commencing in Fiscal Year 2005-2006 for a Parcel shall be determined by the Legislative Body of the CFD by applying the appropriate Special Tax for Developed Property, Approved Property, Undeveloped Property, and Public Property and/or Property Owner's Association Property that is not Exempt Property as set forth in Sections B, C, and D below. All of the real property within the CFD, unless exempted by law or by the provisions hereof in Section E., shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the acreage of a Parcel as indicated on the most recent Assessor's Parcel Map, or if the land area is not shown on such Assessor's Parcel Map, the land area shown on the applicable Final Map, parcel map, condominium plan, or other similar instrument.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, of Part 1 of Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means all actual or reasonably estimated costs and expenses of the County that are chargeable or allocable to carry out its duties as the administrator of the CFD as allowed by the Act, which shall include without limitation, all costs and expenses arising out of or resulting from the annual levy and collection of the Special Tax, Special Tax appeals, foreclosure, trustee fees, rebate compliance calculation fees, any litigation involving the CFD, continuing disclosure undertakings of the County as imposed by applicable laws and regulations, communication with bondholders and normal administrative expenses.

"Administrator" means the County Executive Officer of the County, or his or her designee.

"Approved Property" means all Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have not been issued a building permit prior to the April 1st preceding the Fiscal Year in which the Special Tax is being levied.

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

"Assigned Special Tax" means the Special Tax for each Land Use Category of Developed Property, as determined in accordance with Section C.1.a. below.

“Backup Special Tax” means the Special Tax amount set forth in Section C.1.b., below.

“Bonds” means any bonds or other debt (as defined in the Act) issued by the CFD and secured by the levy of Special Taxes.

“CFD” means Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside established pursuant to the Act.

“County” means the County of Riverside.

“Developed Property” means all Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have been issued a building permit prior to the April 1st preceding the Fiscal Year in which the Special Tax is being levied.

“Exempt Property” means any Parcel which is exempt from Special Taxes pursuant to Section E., below.

“Final Map” means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) or recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual Parcels for which building permits may be issued without further subdivision.

“Fiscal Year” means the period starting on July 1 of any calendar year and ending on June 30 of the following calendar year, commencing July 1, 2004.

“Indenture” means the bond indenture, fiscal agent agreement, trust agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time

“Land Use Category” means any of the categories listed in Table 1, below.

“Legislative Body” means the Board of Supervisors of the County acting *ex officio* as the Legislative Body of the CFD.

“Maximum Special Tax” means the maximum Special Tax, determined in accordance with Section C, which can be levied in any Fiscal Year on any Parcel.

“Non-Residential Property” means all Parcels of Developed Property for which a building permit was issued for a non-residential use.

“Outstanding Bonds” means all issued Bonds, which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayment of a Parcel’s obligation.

“Parcel(s)” means a lot or parcel shown on an Assessor’s Parcel Map within the boundary of the CFD with an assigned parcel number valid at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied.

“Property Owner’s Association Property” means any Parcel which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by a property owner association, including any master or sub-association.

“Proportionately” means for (i) Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is the same for all Parcels of Developed Property, (ii) Approved Property that the ratio of the actual Special Tax levy to the Maximum Special Tax is the same for all Parcels of Approved Property, (iii) Undeveloped Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is the same for all such Parcels, and (iv) Public Property and/or Property Owner’s Association Property, that is not Exempt pursuant to Section E., the ratio of the actual Special Tax levy per Acre to the maximum Special Tax per Acre is the same for all such Property.

“Public Property” means, for any Fiscal Year, any Parcel within the boundary of the CFD which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County, or any other public agency, provided, however, that any Parcel leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use.

“Residential Floor Area” means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio or similar area, on a Parcel. The determination of Residential Floor Area shall be made by reference to the building permit(s) for the Parcel.

“Residential Property” means all Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

“Special Tax(es)” means the special tax to be levied in any Fiscal Year on each Parcel of Taxable Property.

“Special Tax Requirement” means that amount required in any Fiscal Year to pay: (i) annual debt service on all Outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; and (iv) an amount equal to any anticipated shortfall due to Special Tax delinquencies in the prior Fiscal Year; and (v) any amount required to establish or replenish any reserve funds for the Bonds, less (vi) a credit for funds available to reduce the annual Special Tax levy as determined by the Administrator.

“Taxable Property” means all Parcels in the CFD which are not exempt from the Special Tax pursuant to law or Section E., below.

“Undeveloped Property” means all Taxable Property not classified as Developed Property, Approved Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to the provisions of Section E.

B. ASSIGNMENT TO LAND USE CATEGORY

Each Fiscal Year, commencing with the 2005-2006 Fiscal Year, all Parcels of Taxable Property within the CFD shall be classified as Developed Property, Approved Property, Undeveloped Property, Public Property, or Property Owner’s Association Property and shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment as determined pursuant to Sections C., D., and E. below.

Parcels of Developed Property shall further be classified as Residential Property or Non-Residential Property. A Parcel of Residential Property shall further be classified to the appropriate Land Use Category based on the Residential Floor Area for such Parcel as shown in Table 1 below.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

Commencing Fiscal Year 2005-2006, and each Fiscal Year thereafter, the Maximum Special Tax for each Parcel of Residential Property classified as Developed Property shall be the greater of (i) an amount derived by application of the applicable Assigned Special Tax set forth in Table 1 or (ii) the amount derived by application of the Backup Special Tax as provided for in Section C.1.b. below.

Commencing Fiscal Year 2005-2006, and each Fiscal Year thereafter, the Maximum Special Tax for each Parcel of Non-Residential Property classified as Developed Property shall be the Assigned Special Tax described in Table 1.

a. Assigned Special Tax

The Assigned Special Tax for each Land Use Category within the CFD is shown in Table 1 below.

TABLE 1

**Assigned Special Taxes for Developed Property
Community Facilities District No. 04-2**

<i>Land Use Category</i>	<i>Taxable Unit</i>	<i>Assigned Special Tax Per Taxable Unit</i>
1-Residential Property (4,201 or more Sq.Ft.)	D/U	\$5,170
2-Residential Property (4,001 to 4,200 Sq.Ft.)	D/U	\$4,615
3-Residential Property (3,601 to 4,000 Sq.Ft.)	D/U	\$4,470
4-Residential Property (3,401 to 3,600 Sq.Ft.)	D/U	\$4,065
5-Residential Property (3,201 to 3,400 Sq.Ft.)	D/U	\$3,965
6-Residential Property (3,001 to 3,200 Sq.Ft.)	D/U	\$3,740
7-Residential Property (2,801 to 3,000 Sq.Ft.)	D/U	\$3,515
8-Residential Property (2,501 to 2,800 Sq.Ft.)	D/U	\$3,415
9-Residential Property (2,500 or less Sq Ft.)	D/U	\$3,170
10 - Non-Residential Property	Acre	\$14,445

b. Backup Special Tax

The Backup Special Tax for each Parcel of Residential Property created by a specific Final Map shall be determined by multiplying \$14,445 by the total Acreage of Taxable Property within said Final Map, excluding the Acreage associated with lots or Parcels that are or are expected to be classified as Non-Residential Property, Public Property and Property Owner's Association Property pursuant to the current land use entitlements in such Final Map and dividing such amount by the total number of lots classified or expected to be classified as Residential Property within the specific Final Map.

If a single Final Map is recorded for Tract No. 28815 and a single Final Map is recorded for Tract No. 28816 at the same time, both Final Maps shall be treated as a single Final Map for purposes of determining the Backup Special Tax.

Notwithstanding the foregoing, if the number of Parcels of Residential Property in a specific Final Map is subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax shall be recalculated for the area that has been changed or modified using the methodology described in the preceding paragraph.

2. Approved Property

The Maximum Special Tax for each Parcel of Approved Property expected to be classified as Residential Property pursuant to the current land use entitlements shall be the Backup Special Tax computed pursuant to Section C.1.b. The Maximum Special Tax for each Parcel of Approved Property expected to be classified as Non-Residential Property pursuant to the current land use entitlements shall be \$14,445 per Acre.

3. Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E.

The Maximum Special Tax for each Parcel of Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E., shall be the amount determined by multiplying the Acreage of the Parcel by \$14,445 per Acre.

4. Undeveloped Property

The Maximum Special Tax for each Parcel of Undeveloped Property shall be the amount determined by multiplying the Acreage of the Parcel by \$14,445 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2005-2006, and for each following Fiscal Year, the Legislative Body shall determine the Special Tax Requirement and shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax to satisfy the Special Tax Requirement;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Approved Property at up to 100% of the Maximum Special Tax for Approved Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax to be levied on each Parcel of Developed Property whose Maximum Special Tax is derived by the application of the Backup Special Tax which shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel, as needed;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Public

Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E. at up to 100% of the Maximum Special Tax.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property be increased by more than ten percent (10%) per Fiscal Year as a consequence of delinquency or default by the owner of any other Parcel within the CFD.

E. EXEMPTIONS

The Legislative Body shall not levy Special Taxes on up to 628.30 Acres of Public Property and Property Owner's Association Property. Exempt Property status will be assigned by the Administrator in the chronological order in which property becomes Public Property and Property Owner's Association Property.

After the limit of 628.30 Acres has been reached, the Maximum Special Tax obligation for any additional Public Property and/or Property Owner's Association Property shall be subject to the levy of the Special Tax as provided for in the fifth step in Section D., to the extent permitted under the Act and applicable laws. However, if 10.11 acres are dedicated for the purpose of a school site, these 10.11 Acres will be exempt in addition to the 628.30 Acres.

F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *Ad valorem* property taxes and shall be subject to the same penalties, the same procedure, sale and lien priority in the case of delinquency; provided, however, that County may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on Parcels having delinquent Special Taxes as permitted by the Act.

G. APPEALS

Any owner of a Parcel claiming that the amount or application of the Special Tax levied on the Parcel is not correct and requesting a refund may file a written notice of appeal with the Administrator after the Special Tax in dispute has been paid but, not later than 12 months after the mailing of the property tax bill on which the Special Tax appears. The Administrator shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, convene the CFD special tax review board and decide the appeal. This procedure shall be exclusive and its exhaustion by any property owner shall be a condition precedent to any legal action by such owner.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to Section H only:

"CFD Public Facilities" means either \$24,592,241 (in 2004 dollars), which shall increase by the Construction Inflation Index on July 1, 2005, and on each July 1 thereafter, or such lower number as (i) shall be determined by the Administrator as sufficient to provide the public facilities under the authorized bonding program of the CFD, or (ii) shall be determined by the Legislative Body concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment.

"Construction Fund" means an account specifically identified in the Indenture to hold funds that are currently available for expenditure to acquire or construct public facilities eligible under the Act.

“Construction Inflation Index” means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year, which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the Administrator that is reasonably comparable to the Engineering News Record Building Cost Index for the City of Los Angeles.

“Future Facilities Costs” means the CFD Public Facilities minus public facility costs available to be funded through escrow accounts or funded by the Outstanding Bonds as defined in Section A, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

1. Prepayment in Full

The Maximum Special Tax obligation may only be prepaid and permanently satisfied for a Parcel of Public Property, Property Owner’s Association Property, Developed Property, Approved Property or Undeveloped Property for which a building permit has been issued. If Lot 277 of Tract 28816 has been acquired by a school district, this Parcel may be fully prepaid as if a building permit had been issued for Residential Property with Residential Floor Area of 4,201 square feet. The Maximum Special Tax obligation applicable to a Parcel may be fully prepaid and the obligation of the Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Parcel at the time of prepayment. An owner of a Parcel intending to prepay the Maximum Special Tax obligation for the Parcel shall provide the Administrator with written notice of intent to prepay and within 10 business days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the costs to be incurred by the CFD in calculating the Prepayment Amount (as defined below) for the Parcel. Within 15 business days of receipt of such nonrefundable deposit, the Administrator shall notify such owner of the Prepayment Amount for the Parcel.

The Prepayment Amount (defined below) shall equal the sum of the amounts as identified below (capitalized terms are defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
Total:	equals Prepayment Amount

The Prepayment Amount shall be determined as of the proposed prepayment date as follows:

1. Confirm that no Special Tax delinquencies apply to such Parcel.
2. For a Parcel of Developed Property, compute the Maximum Special Tax obligation for the Parcel. For Parcels of Approved Property and Undeveloped Property, compute the Maximum Special Tax obligation for the Parcel as though it was already designated as Developed Property, based upon the building permit, which has been issued for the Parcel. For Parcels of Public Property or Property Owner’s Association Property, compute the Maximum Special Tax obligation for the Parcel.

3. Divide the Maximum Special Tax obligation derived pursuant to paragraph 2 by the total projected Maximum Special Taxes at build out of \$2,027,160, less the Maximum Special Tax obligation for any Parcels which have prepaid.
4. Multiply the quotient derived pursuant to paragraph 3 by the principal amount of the Outstanding Bonds to determine the amount of Outstanding Bonds to be redeemed with the Prepayment Amount (the "*Bond Redemption Amount*").
5. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
6. Determine the Future Facilities Costs.
7. Multiply the quotient derived pursuant to paragraph 3 by the amount derived pursuant to paragraph 6 to determine the amount of Future Facilities Costs for the Parcel (the "*Future Facilities Amount*").
8. Determine the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds on which Bonds can be redeemed from Special Tax prepayments.
9. Determine the Special Taxes levied on the Parcel in the current Fiscal Year which have not yet been paid.
10. Determine the amount the Administrator reasonably expects to derive from the investment of the Bond Redemption Amount from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the Prepayment Amount.
11. Add the amounts derived pursuant to paragraphs 8 and 9 and subtract the amount derived pursuant to paragraph 10 (the "*Defeasance Amount*").
12. Verify the administrative fees and expenses, including the cost of computing of the Prepayment Amount, the cost to invest the Prepayment Amount, the cost of redeeming the Outstanding Bonds, and the cost of recording notices to evidence the prepayment of the Maximum Special Tax obligation for the Parcel and the redemption of Outstanding Bonds (the "*Administrative Fees and Expenses*").
13. The reserve fund credit (the "*Reserve Fund Credit*") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount and the Administrative Fees and Expenses, less the Reserve Fund Credit.
15. From the Prepayment Amount, the Bond Redemption Amount, the Redemption Premium, and the Defeasance Amount shall be deposited into the appropriate fund as

established under the Indenture and be used to redeem Outstanding Bonds or make debt service payments. The Future Facilities Amount shall be deposited into the Construction Fund. The Administrative Fees and Expenses shall be retained by the CFD.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such event, the increment above \$5,000 or an integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next redemption from other Maximum Special Tax obligation prepayments of Outstanding Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined pursuant to paragraph 9 above, the Administrator shall remove the current Fiscal Year's Special Tax levy for the prepaying Parcel from the County tax roll. With respect to any Parcel for which the Maximum Special Tax obligation is prepaid, the Legislative Body shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of the Maximum Special Tax obligation and the release of the Special Tax lien for the Parcel, and the obligation of the Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on all Parcels of Taxable Property after the proposed prepayment will be at least 1.1 times maximum annual debt service on the Bonds that will remain outstanding after the prepayment plus estimated annual Administrative Expenses.

2. **Prepayment in Part**

The Maximum Special Tax obligation on a Parcel of Developed Property may be partially prepaid in increments of \$5,000. For purposes of determining the partial prepayment amount of the provisions of Section H.1 shall be modified as provided by the following formula:

$$PP = ((PE - A) \times F) + A$$

These terms have the following meaning:

- PP = Partial Prepayment
- PE = the Prepayment Amount calculated according to Section H.1
- F = the percent by which the owner of the Parcel(s) is partially prepaying the Maximum Special Tax obligation.
- A = the Administrative Fees and Expenses determined pursuant to Section H.1

The owner of a Parcel who desires to partially prepay the Maximum Special Tax obligation for the Parcel shall notify the Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax obligation, (ii) the percentage by which the Maximum Special Tax obligation shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. Within 10 business days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a Partial Prepayment. Within 15 business days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the amount of the Partial Prepayment for the Parcel. A Partial Prepayment must be made not less than 60 business days prior to any redemption date for the Outstanding Bonds to be redeemed with the proceeds of the Partial Prepayment.

With respect to any Parcel for which the Maximum Special Tax obligation is partially prepaid, the Administrator shall (i) distribute the Partial Prepayment as provided in Paragraph 13 of Section H.1, and (ii) indicate in the records of the CFD that there has been a Partial Prepayment for the Parcel and that a portion of the Maximum Special Tax obligation equal to the remaining percentage (1.00 - F) of the Maximum Special Tax obligation will continue, and the Special Tax shall continue on the Parcel pursuant to Section D.

I. TERM OF THE SPECIAL TAX

Special Taxes shall be levied for the period necessary to satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2034-2035 or the stated maturity of the Bonds, whichever is sooner.

APPENDIX B

GENERAL INFORMATION CONCERNING THE COUNTY OF RIVERSIDE

The following information concerning the County of Riverside (the "County") is presented as general background information. The Bonds are not general obligations of the County but are limited obligations of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District"), as more fully described in this Official Statement, and the taxing power of the County is not pledged to the payment of the Bonds.

Population

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 2,227,577 as of January 1, 2012, representing an approximately 1% increase over the County's population as estimated for the prior year. For the ten year period of January 1, 2003 to January 1, 2012, the County's population grew by 28.7%. During this period, the cities of Eastvale, Jurupa Valley, Menifee and Wildomar incorporated, with a total population of 265,366 as of January 1, 2012. After giving effect to such incorporations, the population in the unincorporated areas of the County increased by 19.3% during such ten-year period. Currently, the growth in the County has tempered due to the economy. Between January 1, 2011 and January 1, 2012, the County population increased by approximately 1%, a rate close to the statewide average.

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)**

<i>CITY</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Banning	28,148	28,551	29,507	29,723	29,965
Beaumont	31,317	32,448	36,496	38,034	38,851
Blythe	21,627	21,346	20,873	20,063	20,400
Calimesa	7,423	7,504	7,853	7,910	7,998
Canyon Lake	10,994	11,143	10,528	10,606	10,689
Cathedral City	51,972	52,508	51,037	51,400	51,952
Coachella	40,317	41,043	40,464	41,339	41,904
Corona	146,698	148,770	151,854	153,047	154,520
Desert Hot Springs	25,939	26,584	25,852	27,277	27,638
Eastvale	-	-	-	54,090	55,602
Hemet	73,205	74,931	78,335	79,309	80,089
Indian Wells	5,000	5,099	4,941	4,990	5,035
Indio	80,962	82,325	75,122	76,817	78,065
Jurupa Valley	-	-	-	-	96,456
Lake Elsinore	49,556	50,324	51,445	52,294	53,024
La Quinta	42,743	43,830	37,307	37,688	38,075
Menifee	-	67,819	77,267	79,139	80,589
Moreno Valley	182,945	186,515	192,654	194,451	196,495
Murrieta	99,576	100,835	103,085	104,051	104,985
Norco	27,143	27,189	27,066	26,968	27,053
Palm Desert	50,686	51,570	48,132	48,920	49,971
Palm Springs	47,019	47,653	44,385	44,829	45,279
Perris	53,340	54,387	67,879	69,506	70,180
Rancho Mirage	16,975	16,938	17,168	17,399	17,504
Riverside	296,191	300,769	302,814	306,069	308,511
San Jacinto	35,491	36,521	44,043	44,421	44,803
Temecula	99,873	102,713	99,611	101,255	103,092
Wildomar	-	31,374	32,006	32,414	32,719
TOTALS					
Incorporated	1,525,140	1,650,689	1,677,724	1,754,009	1,861,944
Unincorporated	553,461	459,193	501,968	451,722	365,633
County-Wide	<u>2,078,601</u>	<u>2,109,882</u>	<u>2,179,692</u>	<u>2,205,731</u>	<u>2,227,577</u>
California	37,883,992	38,255,508	37,223,900	37,510,766	

Source: State Department of Finance, Demographic Research Unit.

Personal Income

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Total personal income in Riverside County increased by 179% between 1999 and 2009. The following tables summarize personal income for Riverside County for 1999 through 2009.

PERSONAL INCOME
Riverside County
1999-2009
(Dollars in Thousands)

<i>Year</i>	<i>Riverside County</i>	<i>Annual Percent Change</i>
1999	\$35,237,015	6.3%
2000	38,238,713	8.5
2001	41,362,723	8.2
2002	43,619,440	5.5
2003	46,998,865	7.7
2004	50,899,043	8.3
2005	55,177,252	8.4
2006	60,450,090	9.6
2007	63,749,464	5.5
2008	64,496,632	1.2
2009	63,228,086	(2.0)

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables summarizes per capita personal income for Riverside County, California and the United States for 1999-2010. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

PER CAPITA PERSONAL INCOME
Riverside County, State of California and the United States
1999-2009

<i>Year</i>	<i>Riverside County</i>	<i>California</i>	<i>United States</i>
1999	\$23,368	\$30,679	\$28,333
2000	24,526	33,404	30,319
2001	25,616	33,896	31,157
2002	25,922	34,049	31,481
2003	26,647	34,975	32,295
2004	27,578	36,887	33,909
2005	28,777	38,731	34,452
2006	30,303	41,518	37,725
2007	31,008	43,211	39,506
2008	30,890	43,993	40,947
2009	29,748	41,353	38,846
2010	n/a	42,578	39,945

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

INDUSTRY AND EMPLOYMENT

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

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE

	2006	2007	2008	2009	2010	2011
Civilian Labor Force	1,745,600	1,766,900	1,776,000	1,774,300	1,798,200	1,799,000
Civilian Employment	1,659,700	1,664,000	1,629,500	1,540,100	1,540,500	1,557,800
Civilian Unemployment	85,900	102,900	146,500	234,200	257,700	241,200
Civilian Unemployment Rate	4.9%	5.8%	8.3%	13.2%	14.3%	13.4%
Total Farm	17,300	16,400	15,900	14,900	15,000	14,900
Total Nonfarm	1,267,700	1,270,900	1,223,800	1,134,800	1,125,900	1,129,700
Total Private	1,045,200	1,045,600	994,000	906,400	891,600	902,400
Goods Producing	252,300	232,400	198,800	157,800	145,800	145,600
Natural Resources and Mining	1,400	1,300	1,200	1,100	1,000	1,000
Construction	127,500	112,500	90,700	67,900	59,700	58,700
Manufacturing	123,400	118,500	106,900	88,800	85,100	85,800
Service Providing	1,015,400	1,038,600	1,025,000	977,000	980,000	984,200
Trade, Transportation and Utilities	291,100	301,900	292,900	271,900	270,800	275,100
Wholesale Trade	54,200	56,800	54,100	48,900	48,600	49,400
Retail Trade	173,200	175,600	168,600	156,200	155,500	157,200
Transportation, Warehousing and Utilities	63,800	69,500	70,200	66,800	66,600	68,500
Information	15,300	15,400	14,900	15,100	15,800	15,000
Financial Activities	51,500	49,800	46,100	42,500	41,000	39,200
Professional and Business Services	142,400	145,200	137,700	124,300	123,400	126,100
Educational and Health Services	122,100	127,200	131,800	133,600	133,800	137,900
Leisure and Hospitality	128,100	132,600	131,000	123,800	122,800	124,300
Other Services	42,500	41,200	40,800	37,300	38,200	39,300
Government	222,500	225,300	229,900	228,400	234,300	227,300
Total, All Industries	<u>1,285,000</u>	<u>1,287,300</u>	<u>1,239,700</u>	<u>1,149,700</u>	<u>1,140,900</u>	<u>1,144,600</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix C.

Source: State of California, Employment Development Department, *Riverside-San Bernardino PMSA Industry Employment & Labor Force - by Annual Average*.

The following table sets forth the major employers located in the County.

**COUNTY OF RIVERSIDE
Major Employers⁽¹⁾**

<i>Rank</i>	<i>Name of Business</i>	<i>No. of Employees in Riverside County</i>	<i>Type of Business</i>
1	County of Riverside	17,669	County Government
2	March Air Reserve Base	8,500	Military Reserve Base
3	Stater Bros. Markets	6,900	Supermarkets
4	University of California, Riverside	5,790	University
5	Corona Norco Unified School District	4,790	School District
6	KSL Resorts	4,000	Resort
7	Pechanga Resort & Casino	4,000	Casino & Resort
8	Riverside Unified School District	3,801	School District
9	Hemet Unified School District	3,546	School District
10	Moreno Valley Unified School District	3,481	School District
11	Abbot Vascular	3,229	Surgical & Medical Instruments Manufacturer
12	Agua Caliente Band of Cahuilla Indians	2,800	Tribal Government/Casinos
13	Temecula Valley Unified School District	2,749	School District
14	City of Riverside	2,600	City Government
15	Eisenhower Medical Center	2,400	Hospital
16	Desert Sands Unified School District	2,360	School District
17	Riverside County Regional Medical Center	2,300	Hospital
18	Lake Elsinore Unified School District	2,291	School District
19	Morongo Casino, Resort & Spa	2,100	Casino & Resort
20	Palm Springs Unified School District	2,074	School District
21	Riverside Community College District	2,072	Community College District
22	Jurupa Unified School District	1,956	School District
23	Riverside Community Hospital	1,838	Hospital
24	Murrieta Valley Unified School District	1,816	School District
25	Coachella Valley Unified School District	1,767	School District

⁽¹⁾ Certain major employers in the County may have been excluded because of the data collection methodology used by The Business Press.

⁽²⁾ Includes employees within the County includes, under certain circumstances, temporary, seasonal and per diem employees.

Source: The Business Press, 2010.

The following table summarizes the labor force, employment and unemployment figures over the past five years for County, the State and the nation as a whole.

**COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA AND UNITED STATES
Average Annual Civilian Labor Force, Employment and Unemployment**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment ⁽¹⁾</i>	<i>Unemployment ⁽²⁾</i>	<i>Unemployment Rate (%) ⁽³⁾</i>
2005				
Riverside County	857,300	811,000	46,300	5.4%
California	17,629,200	16,671,900	957,200	5.4
United States ⁽⁴⁾	149,320,000	141,730,000	7,591,000	5.1
2006				
Riverside County	890,100	845,300	44,800	5.0%
California	17,821,100	16,948,400	872,700	4.9
United States ⁽⁴⁾	151,428,000	144,427,000	7,001,000	4.6
2007				
Riverside County	911,500	856,500	55,000	6.0%
California	18,078,000	17,108,700	969,300	5.4
United States ⁽⁴⁾	153,124,000	146,047,000	7,078,000	4.6
2008				
Riverside County	918,800	839,900	79,000	8.6%
California	18,391,800	17,059,600	1,332,300	7.2
United States ⁽⁴⁾	154,287,000	145,362,000	8,924,000	5.8
2009				
Riverside County	913,900	790,000	123,900	13.6%
California	18,250,200	16,163,900	2,086,200	11.4
United States ⁽⁴⁾	154,142,000	139,877,000	14,265,000	9.3
2010				
Riverside County	913,400	779,100	134,300	14.7%
California	18,176,200	15,916,300	2,259,900	12.4
United States ⁽⁴⁾	153,889,000	139,064,000	14,825,000	9.6
2011				
Riverside County	906,900	780,700	125,300	13.8%
California	18,384,900	16,226,600	2,158,300	11.7
United States ⁽⁴⁾	153,617,000	139,869,000	13,747,000	8.9

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

⁽⁴⁾ Not strictly comparable with data for prior years.

Source: California Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Commercial Activity

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are five regional shopping malls in the County: Galleria at Tyler (Riverside), Hemet Valley Mall, Westfield Palm Desert Shopping Center, Moreno Valley Mall and the Promenade at Temecula. 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 2006 through 2010 (annual information for 2009 is not yet available):

TAXABLE SALES
County of Riverside
2006-2010
(Dollars in Thousands)

<i>Year</i>	<i>Retail Permits</i>	<i>Retail Stores Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2006	23,322	21,842,345	43,672	29,816,237
2007	22,918	21,242,516	45,279	29,023,609
2008	23,604	18,689,249	46,272	26,003,595
2009	29,829	16,057,488	42,765	22,227,877
2010	32,534	16,919,500	45,688	23,152,780

Note: In 2009, retail permits expanded to include permits for food services.
Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

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 2007.

COUNTY OF RIVERSIDE
BUILDING PERMIT VALUATIONS
(IN THOUSANDS)

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
RESIDENTIAL					
New Single-Family	\$ 2,207,320	\$ 1,214,752	\$ 891,825	\$ 914,058	\$ 651,747
New Multi-Family	238,316	243,741	76,717	71,152	115,064
Alterations and Adjustments	<u>141,996</u>	<u>118,490</u>	<u>85,148</u>	<u>94,429</u>	<u>119,684</u>
Total Residential	\$ 2,587,832	\$ 1,576,983	\$ 1,053,690	\$ 1,079,639	\$ 886,495
NON-RESIDENTIAL					
New Commercial	\$ 682,331	\$ 539,944	\$ 94,653	\$ 191,324	\$ 152,160
New Industry	184,506	70,411	12,278	6,686	10,000
New Other ⁽¹⁾	240,765	138,766	107,334	98,105	99,898
Alterations & Adjustments	<u>350,539</u>	<u>292,694</u>	<u>162,557</u>	<u>243,265</u>	<u>297,357</u>
Total Nonresidential	\$ 1,458,141	\$ 1,041,815	\$ 376,822	\$ 539,380	\$ 559,415
TOTAL ALL BUILDING	<u>\$ 4,045,973</u>	<u>\$ 2,618,798</u>	<u>\$ 1,430,512</u>	<u>\$ 1,619,019</u>	<u>\$ 1,445,910</u>

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: Construction Industry Research Board.

**COUNTY OF RIVERSIDE
NUMBER OF NEW DWELLING UNITS**

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Single Family	9,763	3,815	3,424	4,031	2,676
Multi-Family	<u>2,690</u>	<u>2,104</u>	<u>784</u>	<u>526</u>	<u>1,073</u>
TOTAL	<u>12,453</u>	<u>5,919</u>	<u>4,208</u>	<u>4,557</u>	<u>3,749</u>

Source: Construction Industry Research Board.

The following table sets forth a comparison of annual median housing prices for Los Angeles County, Riverside County and Southern California for the years indicated.

**COUNTY OF RIVERSIDE
COMPARISON OF MEDIAN HOUSING PRICES**

<i>Year</i>	<i>Los Angeles</i>	<i>Riverside</i>	<i>San Bernardino</i>	<i>Southern California⁽¹⁾</i>
2006	\$515,000	\$419,000	\$365,000	\$481,000
2007	535,000	395,000	355,000	487,000
2008	400,000	260,000	225,000	340,000
2009	320,000	190,000	150,000	270,000
2010	335,000	200,000	155,000	290,000
2011	315,000	195,000	150,000	280,000

⁽¹⁾ Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.
Source: MDA DataQuick Information Systems.

The following table sets forth a comparison of home and condominium foreclosures recorded in Los Angeles County, Riverside County, San Bernardino County and Southern California for the years indicated.

**COUNTY OF RIVERSIDE
COMPARISON OF HOME FORECLOSURES**

<i>Year</i>	<i>Los Angeles</i>	<i>Riverside</i>	<i>San Bernardino</i>	<i>Southern California⁽¹⁾</i>
2006	1,997	1,778	1,011	7,355
2007	12,466	12,497	7,746	46,086
2008	35,366	32,443	23,601	125,117
2009	29,943	25,309	19,757	100,106
2010	26,827	20,598	16,757	86,853
2011	25,454	17,381	14,181	77,003

⁽¹⁾ Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.
Source: MDA DataQuick Information Systems.

Agriculture

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

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

The value of agricultural production in the County for 2006 through 2010 is presented in the following table.

**COUNTY OF RIVERSIDE
VALUE OF AGRICULTURAL PRODUCTION**

	2006	2007	2008	2009	2010
Citrus Fruits	\$ 107,897,000	\$ 121,387,100	\$ 135,759,800	\$ 101,652,000	\$ 140,501,000
Trees and Vines	191,321,200	189,286,500	173,678,000	191,682,600	164,994,000
Vegetables, Melons, Miscellaneous	213,643,300	234,854,700	266,414,900	221,286,700	292,002,200
Field and Seed Crops	68,611,700	94,492,000	123,545,400	69,699,800	81,328,300
Nursery	270,992,800	272,326,200	230,416,200	206,499,900	169,341,300
Apiculture	3,554,300	3,948,900	5,637,000	5,017,600	4,631,700
Aquaculture Products	11,514,700	9,829,200	12,077,700	5,243,900	4,921,700
Total Crop Valuation	\$ 867,535,000	\$ 926,124,600	\$ 947,529,000	\$ 801,082,500	\$ 857,720,200
Livestock and Poultry Valuation	234,903,400	338,938,600	321,060,900	214,672,800	235,926,300
Grand Total	<u>\$ 1,102,438,400</u>	<u>\$ 1,265,063,200</u>	<u>\$ 1,268,589,900</u>	<u>\$ 1,015,755,300</u>	<u>\$ 1,093,646,500</u>

Source: Riverside County Agricultural Commissioner.

Transportation

Several major freeways and highways provide access between the County and all parts of Southern California. State Route 91 extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses most of the width of the County, the western-most portion of which links up with major cities and freeways in 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. 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 -- Union Pacific Railroad and 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 SunLine Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The Palo Verde Valley Transit Agency provides 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 Los Angeles World Airports, a proprietary department of the City of Los Angeles. 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. The March AFB Joint Powers Authority (the "JPA"), comprised of the County and the Cities of Riverside, Moreno Valley and Perris, is responsible for planning and developing joint military and civilian use. The JPA has constructed infrastructure improvements, entered into leases with private users and initialized a major business park project.

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 Corona-Norco Unified School District, Riverside Unified School District and Moreno Valley 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.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain definitions and provisions of the Indenture (the "Indenture") which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of their provisions.

[TO COME]

APPENDIX D

**FORM OF CONTINUING DISCLOSURE AGREEMENT
OF THE COMMUNITY FACILITIES DISTRICT**

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

APPENDIX F

BOOK ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Community Facilities District believes to be reliable, but the Community Facilities District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dtcc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner

entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Community Facilities District believes to be reliable, but the Community Facilities District takes no responsibility for the accuracy thereof.

ESCROW AGREEMENT

by and between

**COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE**

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
AS PRIOR TRUSTEE AND AS ESCROW BANK**

Dated as of _____ 1, 2012

**Relating to
Community Facilities District No. 04-2 (Lake Hills Crest)
of the County of Riverside
Special Tax Bonds, Series 2005**

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Escrow Agreement"), dated as of _____ 1, 2012, is by and between the COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE, a community facilities district organized and existing under the laws of the State of California (the "Community Facilities District"), and 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, as Prior Trustee (as defined herein) and as escrow bank (the "Escrow Bank").

WITNESSETH:

WHEREAS, the Community Facilities District previously issued the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Bonds, Series 2005 (the "Prior Bonds"), presently outstanding in the aggregate principal amount of \$22,915,000;

WHEREAS, the Prior Bonds were issued under the Bond Indenture, dated as of August 1, 2005 (the "Prior Indenture"), by and between the Community Facilities District and The Bank of New York Trust Company, N.A., as trustee;

WHEREAS, the Escrow Bank is the successor trustee (the "Prior Trustee") under the Prior Indenture;

WHEREAS, the Community Facilities District has determined that debt service savings can be achieved by refunding the Prior Bonds;

WHEREAS, in order to provide the funds required to refund the Prior Bonds, the Community Facilities District is issuing \$_____ aggregate principal amount of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"), pursuant to the Indenture, dated as of _____ 1, 2012 (the "Indenture"), by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee");

WHEREAS, the Community Facilities District has determined to apply a portion of the proceeds of the Series 2012 Bonds for the purpose of providing the funds necessary to pay the interest on the Prior Bonds due and payable on September 1, 2012, to pay the principal of the Prior Bonds due and payable on September 1, 2012 and to redeem the remaining outstanding Prior Bonds on September 1, 2012 (the "Redemption Date") at a redemption price (the "Redemption Price") equal to 100% of the principal amount of the Prior Bonds being so redeemed; and

WHEREAS, the Prior Bonds are subject to redemption on the Redemption Date and the Community Facilities District has determined to provide for the call for redemption on the Redemption Date of the Prior Bonds outstanding on the Redemption Date;

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, the Community Facilities District and the Escrow Bank agree as follows:

Section 1. Definitions. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Prior Indenture.

Section 2. The Refunding Fund. (a) There is hereby established a fund (the "Refunding Fund") to be held as an irrevocably pledged escrow by the Escrow Bank, which the Escrow Bank shall keep separate and apart from all other funds of the Community Facilities District and the Escrow Bank and which shall be applied solely as provided in this Escrow Agreement. The Refunding Fund is established for the purpose of refunding the Prior Bonds and, for purposes of Section 53363.5 of the Mello-Roos Community Facilities Act of 1982, shall be deemed to be a fund in the treasury of the County of Riverside.

Pending application as provided in this Escrow Agreement, amounts on deposit in the Refunding Fund are hereby pledged and assigned solely to the payment of (i) the principal of and interest on the Prior Bonds coming due on and prior to the Redemption Date, and (ii) the Redemption Price on the Redemption Date, which amounts shall be held in trust by the Escrow Bank for the Owners of the Prior Bonds.

(b) The Prior Trustee is hereby instructed to liquidate the investments held in the funds and accounts established under the Prior Indenture. [Upon the issuance of the Series 2012 Bonds, the Prior Trustee shall transfer from the funds and accounts established under the Prior Indenture the amount of \$ _____, for deposit in the Special Tax Fund established under the Indenture.] Upon the issuance of the Series 2012 Bonds, there shall be deposited in the Refunding Fund \$ _____ received from the proceeds of the sale of the Series 2012 Bonds and \$ _____ transferred from the funds and accounts established under the Prior Indenture, for a total of \$ _____.

(c) As reflected in the certification of the nationally recognized firm of independent certified public accountants delivered in connection herewith, upon the deposit of moneys pursuant to Section 2(b) hereof, the moneys on deposit in the Refunding Fund will be at least equal to an amount sufficient to make the payments required by Section 4 hereof.

Section 3. Use of Moneys. (a) The Escrow Bank hereby acknowledges deposit of the moneys described in Section 2(b) hereof and agrees to hold such moneys uninvested.

(b) No moneys deposited with the Escrow Bank pursuant to this Escrow Agreement shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Prior Bonds as provided in Section 4 hereof.

(c) The Owners of the Prior Bonds shall have a first and exclusive lien on the moneys in the Refunding Fund until such moneys are used and applied as provided in this Escrow Agreement.

(d) The Escrow Bank shall not be held liable for losses resulting from compliance with the provisions of this Escrow Agreement.

Section 4. Payment of Prior Bonds. From the moneys held in the Refunding Fund, the Escrow Bank, as the Prior Trustee, shall apply such amounts, as follows:

(a) on the Redemption Date, the Escrow Bank, as the Prior Trustee, shall pay interest on the Prior Bonds in accordance with the terms of the Prior Indenture;

(b) on the Redemption Date, the Escrow Bank, as the Prior Trustee, shall pay principal of the Prior Bonds in accordance with the terms of the Prior Indenture; and

(c) on the Redemption Date, the Escrow Bank, as the Prior Trustee, shall pay the Redemption Price in accordance with the terms of the Prior Indenture.

To the extent that the amount on deposit in the Refunding Fund on the Redemption Date is in excess of the amount necessary to make the required payments with respect to the Prior Bonds, as shown in the then applicable escrow verification of the nationally recognized firm of independent certified public accountants, such excess shall be transferred to the Trustee for deposit in the Special Tax Fund established under the Indenture.

Section 5. Election. The Community Facilities District hereby elects, pursuant to Section 9.1 of the Prior Indenture, that all obligations of the Community Facilities District under the Prior Indenture with respect to the Prior Bonds shall cease and terminate, except for the federal tax covenants of the Community Facilities District contained in Section 5.2(f) of the Prior Indenture.

Section 6. Transfer of Amounts Remaining Under Prior Indenture. The Escrow Bank, as the Prior Trustee, is hereby instructed to transfer any amounts remaining in the funds and accounts established under the Prior Indenture to the Trustee for deposit in the Special Tax Fund established under the Indenture.

Section 7. Escrow Bank's Authority to Make Investments. The Escrow Bank shall have no power or duty to invest any funds held under this Escrow Agreement. The Escrow Bank shall have no power or duty to transfer or otherwise dispose of the moneys held hereunder except as provided in this Escrow Agreement.

Section 8. Indemnity. To the extent permitted by law, the Community Facilities District hereby agrees to indemnify, protect, save and keep harmless the Escrow Bank and its respective successors and assigns, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees, expenses and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Bank at any time in any way relating to or arising out of the execution and delivery of this Escrow Agreement by the Escrow Bank and the performance by the Escrow Bank of its duties hereunder; provided, however, that the Community Facilities District shall not be required to indemnify the Escrow Bank against the Escrow Bank's own negligence or willful misconduct, the negligence or willful misconduct of the Escrow Bank's respective successors or assigns or the material breach by the Escrow Bank or such successors or assigns of the terms of this Escrow Agreement. The indemnities contained in this Section shall survive the termination of this Escrow Agreement.

Section 9. Responsibilities of Escrow Bank. The recitals of fact contained in the "whereas" clauses herein shall be taken as the statements of the Community Facilities District, and the Escrow Bank assumes no responsibility for the correctness thereof. The Escrow Bank

makes no representation as to the sufficiency of the securities to be purchased pursuant hereto, if any, and any uninvested moneys to accomplish the redemption of the Prior Bonds pursuant to the Prior Indenture. The Escrow Bank shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or default. The Escrow Bank may consult with counsel, who may or may not be counsel to the Community Facilities District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action under this Escrow Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of counsel of recognized standing in the field of law relating to municipal bonds) may be deemed to be conclusively established by a written certification of the Community Facilities District. Whenever the Escrow Bank shall deem it necessary or desirable that a matter specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of counsel of recognized standing in the field of law relating to municipal bonds be proved or established prior to taking, suffering or omitting any such action, such matter may be established only by a certificate signed by a nationally recognized firm of certified public accountants or such opinion of counsel of recognized standing in the field of law relating to municipal bonds. No provision of this Escrow Agreement shall require the Escrow Bank to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Bank may resign by giving written notice to the Community Facilities District, and upon receipt of such notice the Community Facilities District shall promptly appoint a successor Escrow Bank. If the Community Facilities District does not appoint a successor Escrow Bank within 30 days of receipt of such notice, the resigning Escrow Bank may petition a court of competent jurisdiction for the appointment of a successor Escrow Bank, which court may thereupon, upon such notice as it shall deem proper, appoint a successor Escrow Bank. Upon acceptance of appointment by a successor Escrow Bank, the resigning Escrow Bank shall transfer all amounts held by it in the Refunding Fund to such successor Escrow Bank and be discharged of any further obligation or responsibility hereunder.

Section 10. Amendments. The Community Facilities District and the Escrow Bank may (but only with the consent of the Owners of all of the Prior Bonds) amend this Escrow Agreement or enter into agreements supplemental to this Escrow Agreement.

Section 11. Compensation. The Community Facilities District shall from time to time pay or cause to be paid to the Escrow Bank the agreed upon compensation for its services to be rendered hereunder, and reimburse the Escrow Bank for all of its reasonable advances in the exercise and performance of its duties hereunder; provided, however, that under no circumstances shall the Escrow Bank be entitled to any lien whatsoever on any moneys or obligations in the Refunding Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Bank under this Escrow Agreement or otherwise.

Section 12. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the Community Facilities District or the Escrow Bank to

be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

Section 13. Counterparts. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

Section 14. Governing Law. This Escrow Agreement shall be construed under the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of the date first above written.

**COMMUNITY FACILITIES DISTRICT
NO. 04-2 (LAKE HILLS CREST) OF
THE COUNTY OF RIVERSIDE**

By: _____

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., AS PRIOR
TRUSTEE AND AS ESCROW BANK**

By: _____
Authorized Officer

INDENTURE

by and between

**COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE**

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
AS TRUSTEE**

Dated as of _____ 1, 2012

**Relating to
Community Facilities District No. 04-2 (Lake Hills Crest)
of the County of Riverside
Special Tax Refunding Bonds**

ARTICLE I	DEFINITIONS; EQUAL SECURITY	3
Section 1.01.	Definitions	3
Section 1.02.	Equal Security.....	9
ARTICLE II	THE BONDS	10
Section 2.01.	Authorization of Bonds	10
Section 2.02.	Terms of Series 2012 Bonds.....	10
Section 2.03.	Execution of Bonds	11
Section 2.04.	Authentication of Bonds.....	11
Section 2.05.	Registration Books	12
Section 2.06.	Transfer and Exchange of Bonds.....	12
Section 2.07.	Book-Entry System.....	12
Section 2.08.	Bonds Mutilated, Lost, Destroyed or Stolen	14
Section 2.09.	Temporary Bonds	15
ARTICLE III	DELIVERY OF SERIES 2012 BONDS; APPLICATION OF AMOUNTS; ADDITIONAL BONDS.....	16
Section 3.01.	Issuance of Series 2012 Bonds	16
Section 3.02.	Application of Proceeds of Amounts.....	16
Section 3.03.	Costs of Issuance Fund.....	16
Section 3.04.	Conditions for the Issuance of Additional Bonds.....	17
Section 3.05.	Procedure for the Issuance of Additional Bonds	18
Section 3.06.	Additional Bonds.....	19
ARTICLE IV	REDEMPTION OF BONDS.....	20
Section 4.01.	Redemption of Series 2012 Bonds	20
Section 4.02.	Notice of Redemption.....	21
Section 4.03.	Selection of Bonds for Redemption.....	22
Section 4.04.	Partial Redemption of Bonds.....	22
Section 4.05.	Effect of Notice of Redemption.....	22
ARTICLE V	SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS.....	23
Section 5.01.	Pledge	23
Section 5.02.	Special Tax Fund	23
Section 5.03.	Bond Fund	24
Section 5.04.	Redemption Fund	24
Section 5.05.	Reserve Fund	25

Section 5.06.	Rebate Fund	26
Section 5.07.	Administrative Expense Fund	26
Section 5.08.	Earnings Fund	27
Section 5.09.	Investment of Moneys	27
ARTICLE VI	COVENANTS	29
Section 6.01.	Collection of Special Tax Revenues.....	29
Section 6.02.	Foreclosure	29
Section 6.03.	Compliance with Act	30
Section 6.04.	Punctual Payment	30
Section 6.05.	Extension of Payment of Bonds	30
Section 6.06.	Against Encumbrances; Defense of Pledge.....	30
Section 6.07.	Tax Covenants	30
Section 6.08.	Continuing Disclosure	31
Section 6.09.	Non-Cash Payments of Special Taxes.....	31
Section 6.10.	Reduction in Special Taxes	31
Section 6.11.	Accounting Records	31
Section 6.12.	State Reporting	31
Section 6.13.	Annual Reports to the California Debt and Investment Advisory Commission	32
Section 6.14.	Further Assurances	32
ARTICLE VII	EVENTS OF DEFAULT AND REMEDIES	33
Section 7.01.	Events of Default	33
Section 7.02.	Foreclosure	33
Section 7.03.	Other Remedies	33
Section 7.04.	Remedies Not Exclusive.....	34
Section 7.05.	Application of Net Special Tax Revenues After Default	34
Section 7.06.	Power of Trustee to Enforce.....	34
Section 7.07.	Owners' Direction of Proceedings	35
Section 7.08.	Limitation on Owners' Right to Sue.....	35
Section 7.09.	Absolute Obligation.....	35
Section 7.10.	Termination of Proceedings.....	35
Section 7.11.	No Waiver of Default	36
ARTICLE VIII	TRUSTEE.....	37

Section 8.01.	Duties and Liabilities of Trustee	37
Section 8.02.	Qualifications; Removal and Resignation; Successors	37
Section 8.03.	Liability of Trustee	38
Section 8.04.	Right to Rely on Documents and Opinions	39
Section 8.05.	Accounting Records and Financial Statements	40
Section 8.06.	Preservation and Inspection of Documents	40
Section 8.07.	Compensation and Indemnification	40
ARTICLE IX	SUPPLEMENTAL INDENTURES	41
Section 9.01.	Supplemental Indentures	41
Section 9.02.	Effect of Supplemental Indenture	42
Section 9.03.	Endorsement of Bonds; Preparation of New Bonds	42
Section 9.04.	Amendment of Particular Bonds	42
ARTICLE X	DEFEASANCE	43
Section 10.01.	Discharge of Indenture	43
Section 10.02.	Bonds Deemed To Have Been Paid	43
Section 10.03.	Unclaimed Moneys	44
ARTICLE XI	MISCELLANEOUS	45
Section 11.01.	Successor Is Deemed Included in All References to Predecessor	45
Section 11.02.	Limitation of Rights	45
Section 11.03.	Destruction of Bonds	45
Section 11.04.	Severability of Invalid Provisions	45
Section 11.05.	Notices	45
Section 11.06.	Evidence of Rights of Owners	46
Section 11.07.	Disqualified Bonds	47
Section 11.08.	Money Held for Particular Bonds	47
Section 11.09.	Funds and Accounts	47
Section 11.10.	Business Days	47
Section 11.11.	Waiver of Personal Liability	47
Section 11.12.	Interpretation	48
Section 11.13.	Conflict with Act	48
Section 11.14.	Conclusive Evidence of Regularity	48
Section 11.15.	Governing Laws	48

Section 11.16. Execution in Several Counterparts	48
EXHIBIT A - PERMITTED INVESTMENTS.....	A-1
EXHIBIT B - FORM OF SERIES 2012 BOND	B-1

INDENTURE

THIS INDENTURE (this "Indenture"), dated as of _____, 2012, is by and between COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE, a community facilities district organized and existing under the laws of the State of California (the "Community Facilities District"), and 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, as trustee (the "Trustee").

WITNESSETH:

WHEREAS, the Board of Supervisors of the County of Riverside has established the Community Facilities District under the provisions of the Mello-Roos Community Facilities Act of 1982 (the "Act");

WHEREAS, the Community Facilities District is authorized under the Act to levy special taxes (the "Special Taxes") to pay for the costs of certain public facilities (the "Facilities") and to authorize the issuance of bonds payable from the Special Taxes;

WHEREAS, in order to provide funds to finance certain of the Facilities, the Community Facilities District previously issued its Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Bonds, Series 2005 (the "Prior Bonds"), in the aggregate principal amount of \$25,820,000;

WHEREAS, the Community Facilities District is authorized under the Act to issue bonds payable from the Special Taxes in order to refund the Prior Bonds;

WHEREAS, the Community Facilities District desires to refund the Prior Bonds;

WHEREAS, in order to provide a portion of the moneys required to refund the Prior Bonds, the Community Facilities District desires to provide for the issuance of the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"), in the aggregate principal amount of \$ _____;

WHEREAS, the Community Facilities District desires to provide for the issuance of additional refunding bonds (the "Additional Bonds") payable from the Special Taxes on a parity with the Series 2012 Bonds, provided that said issuance is in accordance with the Act and this Indenture (the Series 2012 Bonds and any such Additional Bonds being collectively referred to as the "Bonds");

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, premium, if any, and interest thereon, the Community Facilities District has authorized the execution and delivery of this Indenture; and

WHEREAS, the Community Facilities District has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the Community Facilities District, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special

obligations of the Community Facilities District, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture has been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, premium, if any, and the interest on all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the owners thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Community Facilities District does hereby covenant and agree with the Trustee, for the benefit of the respective owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified.

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

“Additional Bonds” means Bonds other than Series 2012 Bonds issued hereunder in accordance with the provisions of Sections 3.04 and 3.05.

“Administrative Expense Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.07.

“Administrative Expenses” means costs related to the administration of the Community Facilities District, including but not limited to, the cost of administering the levy and collection of the Special Tax and all other administrative costs of the Community Facilities District, including, but not limited to, the fees and expenses of the Trustee (including any fees and expenses of its counsel), the expenses of the Community Facilities District or the County in carrying out the Community Facilities District’s duties hereunder including annual audits, the fees and expenses of its special tax consultants and its legal counsel, and costs incurred in the levying and collection of the Special Tax, the costs incurred in the foreclosure of parcels delinquent in the payment of Special Taxes or in connection with obtaining security for payment of Special Taxes in lieu of foreclosure, costs associated with the creation and dissemination of continuing disclosure, fees incurred in connection with the calculation of arbitrage rebate due to the federal government, amounts payable to the federal government as arbitrage rebate and all other costs of the Community Facilities District, the County or the Trustee incurred in connection with the discharge of their respective duties hereunder, including, in the case of the County, in any way reasonably related to the administration of the Community Facilities District (other than costs of any consultant or firm of financial consultants appointed by the Community Facilities District or the County incurred in connection with the prepayment of the Special Tax).

“Administrator” means, with respect to the Community Facilities District, the County Executive Officer, and any other Person designated as an Administrator of the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including by reason of mandatory sinking fund redemptions).

“Auditor” means the Auditor/Controller of the County.

“Authorized Denominations” means (a) with respect to the Series 2012 Bonds, \$5,000 and any integral multiple thereof, and (b) with respect to each Series of Additional Bonds, the authorized denominations for such Series of Additional Bonds specified in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

“Average Annual Debt Service” means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

“Board of Supervisors” means the Board of Supervisors of the County.

“Bond Counsel” means a firm of nationally recognized bond counsel selected by the Community Facilities District.

“Bond Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.03.

“Bond Year” means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2012.

“Bonds” means the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds issued hereunder, and includes the Series 2012 Bonds and any Additional Bonds.

“Book-Entry Bonds” means the Bonds of a Series registered in the name of the Depository, or the Nominee thereof, as the registered owner thereof pursuant to the terms and provisions of Section 2.07.

“Business Day” means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

“Closing Date” means the date upon which the Series 2012 Bonds are delivered to the Original Purchaser, being _____, 2012.

“Code” means the Internal Revenue Code of 1986.

“Community Facilities District” means Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, a community facilities district organized and existing under the laws of the State, and any successor thereto.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of _____ 1, 2012, by and between the Community Facilities District and the Trustee, as

originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Community Facilities District or the County relating to the authorization, sale, issuance and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“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, and any successor thereto.

“Defeasance Securities” means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), and (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any Person claiming through the custodian or to whom the custodian may be obligated.

“Depository” means DTC, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to Section 2.07.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York.

“Earnings Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.08.

“Escrow Bank” 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, as escrow bank under the Escrow Agreement, and any successor thereto.

“Event of Default” means any event or circumstance specified in Section 7.01.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Community Facilities District.

“Indenture” means this Indenture, dated as of _____ 1, 2012, by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

“Independent Consultant” means any consultant or firm of such consultants selected by the Community Facilities District and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field, (b) is in fact independent and not under the control of the Community Facilities District or the County, (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District or the County, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District, and (d) is not connected with the Community Facilities District or the County as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District or the County.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing March 1, 2013, so long as any Bonds remain Outstanding.

“Legislative Body” means the Board of Supervisors, acting *ex officio* as the Legislative Body of the Community Facilities District.

“Letter of Representations” means the Letter of Representations from the Community Facilities District to the Depository, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by the Depository.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

“Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Net Special Tax Revenues” means Special Tax Revenues, less amounts required to pay Administrative Expenses.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.07.

“Office of the Trustee” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Community Facilities District by the Trustee in writing.

“Ordinance” means Ordinance No. 834 adopted by the Board of Supervisors on January 25, 2005, as originally adopted and as it may be amended from time to time.

“Original Purchaser” means the original purchaser of the Series 2012 Bonds from the Community Facilities District.

“Outstanding” means, when used as of any particular time with reference to Bonds, subject to the provisions of Section 11.07, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (a) Bonds theretofore canceled by the Trustee

or surrendered to the Trustee for cancellation, (b) Bonds with respect to which all liability of the Community Facilities District shall have been discharged in accordance with Section 10.01, and (c) Bonds in lieu of which other Bonds shall have been authenticated and delivered by the Trustee pursuant to Section 2.08.

“Owner” means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

“Participant” means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

“Participating Underwriter” has the meaning ascribed to such term in the Continuing Disclosure Agreement.

“Permitted Investments” is defined in Exhibit A hereto.

“Person” means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prior Bonds” means the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Bonds, Series 2005, issued under the Prior Indenture.

“Prior Indenture” means the Bond Indenture, dated as of August 1, 2005, by and between the Community Facilities District and The Bank of New York Trust Company, N.A., as trustee.

“Prior Trustee” means The Bank of New York Mellon Trust Company, N.A., as successor trustee under the Prior Indenture.

“Rate and Method” means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the Community Facilities District.

“Rebate Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.06.

“Rebate Requirement” has the meaning ascribed to such term in the Tax Certificate.

“Record Date” means, with respect to interest payable on any Interest Payment Date, the 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 and held by the Trustee pursuant to Section 5.04.

“Redemption Price” means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant hereto.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to Section 2.05.

“Reserve Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.05.

“Reserve Requirement” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Series” means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to this Indenture as the Series 2012 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

“Series 2012 Bonds” means the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012, issued hereunder.

“Special Tax Fund” means the fund by that name established and held by the Trustee pursuant to Section 5.02.

“Special Tax Revenues” means the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon, proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes and proceeds of any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from proceeds of such redemption, sale or security.

“Special Taxes” means the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance and this Indenture.

“State” means the State of California.

“Supplemental Indenture” means any supplemental indenture amendatory of or supplemental to this Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Tax Certificate” means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2012 Bonds relating to the requirements of Section 148 of the

Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“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 any successor thereto as Trustee hereunder, substituted in its place as provided herein.

“Verification Report” means, with respect to the deemed payment of Bonds pursuant to Section 10.02(a), a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of Section 10.02(a).

“Written Certificate” and **“Written Request”** of the Community Facilities District mean, respectively, a written certificate or written request signed in the name of the Community Facilities District by an Administrator. Any such certificate or request 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.

Section 1.02. Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the Community Facilities District, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered hereunder and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered hereunder, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements and covenants set forth herein to be performed by or on behalf of the Community Facilities District shall be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

THE BONDS

Section 2.01. Authorization of Bonds. (a) The Community Facilities District hereby authorizes the issuance of the Bonds under and subject to the terms of this Indenture, the Act and other applicable laws of the State. The Bonds may consist of one or more Series of varying denominations, dates, maturities, interest rates and other provisions, subject to the provisions and conditions contained herein. The Bonds shall be designated generally as the "Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds," each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds.

(b) The Bonds shall be special obligations of the Community Facilities District, payable, as provided herein, solely from Net Special Tax Revenues and the other assets pledged therefor hereunder. Neither the faith and credit nor the taxing power of the Community Facilities District (except to the limited extent set forth herein), the County or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

Section 2.02. Terms of Series 2012 Bonds. (a) The Series 2012 Bonds shall be designated "Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012." The aggregate principal amount of Series 2012 Bonds that may be issued and Outstanding under this Indenture shall not exceed \$_____, except as may be otherwise provided in Section 2.08.

(b) The Series 2012 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Series 2012 Bond shall have more than one maturity date. The Series 2012 Bonds shall be dated as of the Closing Date, shall be issued in the aggregate principal amount of \$_____, shall mature on September 1 of each year, shall bear interest at the rates per annum (calculated on the basis of a 360-day year comprised of twelve 30-day months) and shall be in the principal amounts as follows:

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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(b) Interest on the Series 2012 Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 Bond is authenticated on or

before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon shall be payable from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for. Interest shall be paid in lawful money of the United States on each Interest Payment Date. Interest shall be paid by check of the Trustee mailed by first -class mail, postage prepaid, on each Interest Payment Date to the Owners of the Series 2012 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date, or by wire transfer at the written request of an Owner of not less than \$1,000,000 aggregate principal amount of Series 2012 Bonds, which written request is received by the Trustee on or prior to the Record Date. Notwithstanding the foregoing, interest on any Series 2012 Bond which is not punctually paid or duly provided for on any Interest Payment Date shall, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series 2012 Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which shall be given to such Owner not less than ten days prior to such special record date.

(c) The principal of the Series 2012 Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

(d) The Series 2012 Bonds shall be subject to redemption as provided in Article IV.

(e) The Series 2012 Bonds shall be in substantially the form set forth in Exhibit B hereto, with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

(f) The Series 2012 Bonds shall initially be issued as Book-Entry Bonds.

Section 2.03. Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Community Facilities District with the manual or facsimile signature of the Chairman of the Legislative Body, attested by the manual or facsimile signature of the Clerk of the Legislative Body. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of such officers who shall have signed or attested any of the Bonds shall cease to be such officers before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the Community Facilities District, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Community Facilities District as though those who signed and attested the same had continued to be such officers, and also any Bonds may be signed and attested on behalf of the Community Facilities District by such Persons as at the actual date of execution of such Bonds shall be the proper officers of the Legislative Body although at the nominal date of such Bonds any such Person shall not have been such officer of the Legislative Body.

Section 2.04. Authentication of Bonds. Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form as that set forth in Exhibit B hereto for the

Series 2012 Bonds, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.05. Registration Books. The Trustee shall keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall be open to inspection during regular business hours and upon reasonable notice by the Community Facilities District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds.

Section 2.06. Transfer and Exchange of Bonds. (a) Any Bond may be transferred upon the Registration Books by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be so surrendered for transfer, the Community Facilities District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series and maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

(b) The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

(c) The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series pursuant to this Section during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Section 2.07. Book-Entry System. (a) Prior to the issuance of a Series of Bonds, the Community Facilities District may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds, and in such event, the Bonds of such Series for each maturity date shall be in the form of a separate single fully-registered Bond (which may be typewritten). Upon initial issuance, the ownership of each such Bond of such Series shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. The Series 2012 Bonds shall initially be issued as Book-Entry Bonds.

Payment of principal of, and interest and premium, if any, on, any Book-Entry Bond registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Bonds, the Community Facilities District and the Trustee shall have no responsibility or obligation to any Participant or to any Person on behalf of which such a Participant holds an interest in such Book-Entry Bonds. Without limiting the immediately preceding sentence, the Community Facilities District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Bonds of a maturity to be redeemed in the event such Book-Entry Bonds are redeemed in part, (iv) the payment to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any amount with respect to principal of, or premium, if any, or interest on Book-Entry Bonds, or (v) any consent given or other action taken by the Depository as Owner.

(c) The Community Facilities District and the Trustee may treat and consider the Person in whose name each Book-Entry Bond is registered in the Registration Books as the absolute Owner of such Book-Entry Bond for the purpose of payment of principal of, and premium, if any, and interest on such Bond, for the purpose of selecting any Bonds, or portions thereof, to be redeemed, for the purpose of giving notices of redemption and other matters with respect to such Book-Entry Bond, for the purpose of registering transfers with respect to such Book-Entry Bond, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the Community Facilities District and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a redemption of all or a portion of a Book-Entry Bond, the Depository, in its discretion (i) may request the Trustee to authenticate and deliver a new Book-Entry Bond, or (ii) if the Depository is the sole Owner of such Book-Entry Bond, shall make an appropriate notation on the Book-Entry Bond indicating the date and amounts of the reduction in principal thereof resulting from such redemption, except in the case of final payment, in which case such Book-Entry Bond must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal of, and premium, if any, and interest on the Book-Entry Bonds only to or "upon the order of" (as that term is used in the Uniform Commercial Code as adopted in the State) the respective Owner, as shown in the Registration Books, or such Owner's respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal of, and premium, if any, and interest on the Book-Entry Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the Registration Books, shall receive an authenticated Book-Entry Bond. Upon delivery by the Depository to the Owners, the Community Facilities District and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Bonds for the Depository's book-entry system, the Community Facilities District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Community Facilities District or the Trustee any obligation whatsoever with

respect to Persons having interests in such Book-Entry Bonds other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the Community Facilities District, the Community Facilities District and the Trustee shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

(g) In the event the Community Facilities District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Bonds and that such Bonds should therefore be made available, and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Bonds. In such event, the Trustee shall transfer and exchange certificated Bonds as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Bonds, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the Community Facilities District shall discontinue the Book-Entry system with the Depository. If the Community Facilities District determines to replace the Depository with another qualified securities depository, the Community Facilities District shall prepare or direct the preparation of a new single, separate, fully-registered Bond of the appropriate Series for each maturity date of such Book-Entry Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the Community Facilities District fails to identify another qualified securities depository to replace the Depository, then the Book-Entry Bonds shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of Sections 2.06, 2.08 and 2.09. Whenever the Depository requests the Community Facilities District to do so, the Community Facilities District shall cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Bonds to any Participant having Book-Entry Bonds credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Bonds.

(h) Notwithstanding any other provision of this Indenture to the contrary, if the Depository is the sole Owner of the Bonds of a Series, so long as any Book-Entry Bond of such Series is registered in the name of the Nominee, all payments of principal of, and premium, if any, and interest on such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to this Indenture by the Community Facilities District or the Trustee, with respect to any consent or other action to be taken by Owners of Book-Entry Bonds, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

Section 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Community Facilities District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series

and maturity in a like principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Community Facilities District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the Community Facilities District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate principal amount in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Community Facilities District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under this Section and of the expenses which may be incurred by the Community Facilities District and the Trustee. Any Bond of a Series issued under the provisions of this Section in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Community Facilities District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds of such Series secured by this Indenture.

Section 2.09. Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Community Facilities District, shall be in fully-registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Community Facilities District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Community Facilities District issues temporary Bonds of a Series it shall execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver, in exchange for such temporary Bonds, an equal aggregate principal amount of definitive Bonds of such Series and maturities in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under this Indenture as definitive Bonds of such Series authenticated and delivered hereunder.

ARTICLE III

DELIVERY OF SERIES 2012 BONDS; APPLICATION OF AMOUNTS; ADDITIONAL BONDS

Section 3.01. Issuance of Series 2012 Bonds. The Community Facilities District may, at any time, execute the Series 2012 Bonds and deliver the same to the Trustee. The Trustee shall, on the Closing Date, authenticate the Series 2012 Bonds and deliver the Series 2012 Bonds to the Original Purchaser upon receipt of a Written Request of the Community Facilities District and upon receipt of the purchase price therefor.

Section 3.02. Application of Proceeds of Amounts. (a) On the Closing Date, the proceeds of the sale of the Series 2012 Bonds received by the Trustee, \$ _____, shall be deposited by the Trustee as follows:

(i) the Trustee shall deposit the amount of \$ _____ in the Costs of Issuance Fund;

(ii) [the Trustee shall deposit the amount of \$ _____ in the Special Tax Fund;]

(iii) the Trustee shall deposit the amount of \$ _____ in the Reserve Fund, which is equal to the Reserve Requirement; and

(iv) the Trustee shall transfer the amount of \$ _____ to the Escrow Bank, to be applied to the redemption of the Prior Bonds in accordance with the provisions of the Escrow Agreement.

(b) [On the Closing Date, the Trustee shall deposit the amount received from the Prior Trustee, \$ _____, in the Special Tax Fund.]

Section 3.03. Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to Section 3.02. There shall be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Bond Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

(c) If the Costs of Issuance Fund has been closed in accordance with the provisions hereof, the Costs of Issuance Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Section 3.04. Conditions for the Issuance of Additional Bonds. The Community Facilities District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2012 Bonds) payable from Net Special Tax Revenues as provided herein on a parity with all other Bonds theretofore issued hereunder, but only subject to the following conditions, which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing hereunder;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant hereto and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to refund any Bonds previously issued hereunder, (B) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, and (C) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (viii) below;

(ii) the principal amount and designation of such Series of Additional Bonds and the interest rate to be borne by each maturity of such Additional Bonds;

(iii) that such Additional Bonds shall be payable as to interest on the Interest Payment Dates, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months;

(iv) the date, the maturity date or dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that each such maturity date and date on which a mandatory sinking fund redemption is to be made shall be a September 1 and, provided, further, that serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(v) the Authorized Denominations of such Additional Bonds;

(vi) the redemption premiums and terms, if any, for such Additional Bonds;

(vii) the form of such Additional Bonds;

(viii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, however, that the amount on deposit in the Reserve Fund at the time that such Additional Bonds become Outstanding shall be at least equal to the Reserve Requirement; and

(ix) such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof; and

(c) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds.

Nothing contained herein shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued hereunder will be Outstanding.

Section 3.05. Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the Community Facilities District for issuance hereunder and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) a certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Community Facilities District as to the delivery of such Additional Bonds;

(c) a Written Certificate of the Community Facilities District stating that the conditions precedent to the issuance of such Additional Bonds specified in Section 3.04 have been satisfied;

(d) an opinion of Bond Counsel substantially to the effect that (i) this Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Community Facilities District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely

affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(e) the proceeds of the sale of such Additional Bonds; and

(f) such further documents or money as are required by the provisions hereof or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Section 3.06. Additional Bonds. So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any Additional Bonds or obligations payable from Special Tax Revenues, except pursuant to Sections 3.04 and 3.05.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. **Redemption of Series 2012 Bonds.** (a) *Optional Redemption.* The Series 2012 Bonds shall be subject to optional redemption, in whole on any date or in part in Authorized Denominations on any Interest Payment Date, on or after March 1, 2013, from any source of available funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 1, 2013 through March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and thereafter	

The Community Facilities District shall give the Trustee written notice of its intention to redeem Series 2012 Bonds pursuant to this subsection not less than 45 days prior to the applicable redemption date, unless such notice shall be waived by the Trustee.

(b) *Mandatory Redemption from Special Tax Prepayments.* The Series 2012 Bonds shall be subject to mandatory redemption, in whole or in part, on any Interest Payment Date on or after March 1, 2013, from and to the extent of any prepaid Special Taxes deposited in the Redemption Fund, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 1, 2013 through March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 20__ and thereafter	

(c) *Mandatory Sinking Fund Redemption.* The Series 2012 Bonds maturing September 1, 20__ shall be subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 20__, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Sinking Fund
Redemption Date
(September 1)

Principal Amount
to be
Redeemed

(Maturity)

If some but not all of the Series 2012 Bonds maturing on September 1, 20__ are redeemed pursuant to Section 4.01(a), the principal amount of Series 2012 Bonds maturing on September 1, 20__ to be redeemed pursuant to Section 4.01(d) on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Series 2012 Bonds maturing on September 1, 20__ redeemed pursuant to Section 4.01(a). If some but not all of the Series 2012 Bonds maturing on September 1, 20__ are redeemed pursuant to Section 4.01(b), the principal amount of Series 2012 Bonds maturing on September 1, 20__ to be redeemed pursuant to Section 4.01(d) on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2012 Bonds maturing on September 1, 20__ so redeemed pursuant to Section 4.01(b), such reduction to be allocated among redemption dates as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the Community Facilities District.

Section 4.02. Notice of Redemption. The Trustee on behalf and at the expense of the Community Facilities District shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books and to the Original Purchaser at least 30 but not more than 60 days prior to the date fixed for redemption. Such notice shall state the date of the notice, the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, if any, the Bond numbers and the maturity or maturities of the Bonds to be redeemed (except in the event of redemption of all of the Bonds of such maturity or maturities in whole), and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption. With respect to any notice of any optional redemption of Bonds, unless at the time such notice is given the Bonds to be redeemed shall be deemed to have been paid within the meaning of Section 10.02, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Community Facilities District shall not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the

Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Bonds pursuant to such notice of redemption.

Section 4.03. Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Community Facilities District, (b) with respect to any redemption pursuant to Section 4.01(b) and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a *pro rata* basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Community Facilities District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Community Facilities District, a new Bond or Bonds of the same Series in Authorized Denominations in an aggregate principal amount equal to the unredeemed portion of the Bonds surrendered.

Section 4.05. Effect of Notice of Redemption. Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions hereof shall be canceled upon surrender thereof and destroyed.

ARTICLE V

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Section 5.01. Pledge. Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of this Indenture and the Act, the Community Facilities District hereby pledges to the Owners, and grants thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Community Facilities District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, this Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

Section 5.02. Special Tax Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." [On the Closing Date, the Trustee shall deposit in the Special Tax Fund the amount specified in Section 3.02.] As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any such Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of Bonds in accordance with the provisions hereof, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund.

(b) Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

(c) On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall make the following transfers in the following order of priority:

(i) *Bond Fund.* The Trustee shall withdraw from the Special Tax Fund and transfer to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date; and

(ii) *Reserve Fund.* After having made any transfers required to be made pursuant to the preceding paragraph (i), the Trustee shall withdraw from the Special Tax Fund and transfer to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Section 5.03. Bond Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Bond Fund." The Trustee shall deposit in the Bond Fund from time to time the amounts required to be deposited therein pursuant to Section 5.02(c). There shall additionally be deposited in the Bond Fund the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

(c) On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners of the Bonds the principal, if any, of and interest on the Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

In the event that, on an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall apply available funds therein in accordance with the provisions of Section 7.05.

Section 5.04. Redemption Fund. (a) The Trustee shall establish and maintain a special fund designated the "Redemption Fund." As soon as practicable after the receipt by the Community Facilities District of prepaid Special Taxes, but in any event not later than ten Business Days after such receipt, the Community Facilities District shall transfer the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be redeemed from such prepaid Special Taxes to the Trustee for deposit in the Redemption Fund. The Trustee shall deposit in the Redemption Fund amounts received from the Community Facilities District in connection with the Community Facilities District's exercise of its rights to optionally redeem Series 2012 Bonds pursuant to Section 4.01(a) and any other amounts required to be deposited therein pursuant to Section 5.05 or pursuant to any Supplemental Indenture.

(b) Amounts in the Redemption Fund shall be disbursed therefrom (i) to pay the Redemption Price of Series 2012 Bonds redeemed pursuant to Section 4.01(b) and to pay the Redemption Price of Additional Bonds redeemed under the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued, and (ii) to pay the Redemption Price of Series 2012 Bonds redeemed pursuant to Section 4.01(a) and to pay the

Redemption Price of Additional Bonds redeemed under the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(c) In lieu of the optional redemption of Bonds otherwise to be redeemed pursuant hereto from amounts on deposit in the Redemption Fund, amounts on deposit in the Redemption Fund may, no later than 45 days prior to the date on which such Bonds are to be so redeemed, be used and withdrawn by the Trustee, upon the Written Request of the Community Facilities District, for the purchase of such Bonds at public or private sale at a purchase price (including brokerage and other charges, but excluding accrued interest, which is payable from the Bond Fund) that shall not exceed the Redemption Price of such Bonds.

Section 5.05. Reserve Fund. (a) The Trustee shall establish and maintain a special fund designated the "Reserve Fund." On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount specified in Section 3.02. The Trustee shall deposit in the Reserve Fund from time to time the amounts required to be deposited therein pursuant to Section 5.02(c). There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) Except as otherwise provided in this Section, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) making transfers to the Bond Fund in accordance with Section 5.03(b) in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds, and (ii) redeeming Bonds in accordance with the provisions of this Section.

(c) Whenever Bonds are to be redeemed pursuant to Section 4.01(a) or Section 4.01(b) or the corresponding provisions of a Supplemental Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to Section 10.02, be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

(d) Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

(e) If as a result of the scheduled payment of principal of or interest on the Outstanding Bonds, the Reserve Requirement is reduced, the Trustee shall transfer to the Bond Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds such reduced Reserve Requirement.

Section 5.06. Rebate Fund. The Trustee shall establish and maintain a special fund designated the "Rebate Fund." There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Community Facilities District. 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, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to Article X or anything to the contrary contained herein, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section 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 written directions of the Community Facilities District, and shall have no liability or responsibility to enforce compliance by the Community Facilities District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Community Facilities District's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Community Facilities District's calculations.

Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in this Section, shall, upon receipt by the Trustee of a Written Request of the Community Facilities District, be withdrawn by the Trustee and remitted to the Community Facilities District.

On or before November 1 of each year, the Community Facilities District shall deliver to the Trustee a Written Certificate of the Community Facilities District specifying the amount of the then applicable Rebate Requirement. Any amount in the Rebate Fund in excess of the Rebate Requirement on November 1 of each year shall be withdrawn from the Rebate Fund by the Trustee and shall be deposited in the Earnings Fund.

Section 5.07. Administrative Expense Fund. The Trustee shall establish and maintain a special fund designated the "Administrative Expense Fund." The Trustee shall deposit in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to Section 5.02(b).

The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the Community Facilities District stating (a) the Person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred and that such purpose constitutes an Administrative Expense, (d) that such payment is a proper charge against the Administrative Expense Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

To the extent moneys are not otherwise available therefor in the Earnings Fund, amounts in the Administrative Expense Fund shall, at the Written Request of the Community Facilities District, be transferred by the Trustee to the Rebate Fund.

Section 5.08. Earnings Fund. The Trustee shall establish and maintain a special fund designated the "Earnings Fund." The Trustee shall deposit in the Earnings Fund the amounts required to be deposited therein pursuant to Section 5.06 or Section 5.09.

At least annually on or before November 1 of each year, if the amount on deposit in the Rebate Fund is less than the Rebate Requirement, the Community Facilities District shall deliver to the Trustee a Written Request of the Community Facilities District directing the Trustee to transfer from the Earnings Fund to the Rebate Fund the amount specified in such Written Request (which shall be an amount sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebate Requirement), and the Trustee shall so transfer such amount. On November 2 of each year, after having made any requested transfer to the Rebate Fund, the Trustee shall transfer any amount in the Earnings Fund, first, to the Reserve Fund in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement and, second, to the Special Tax Fund.

Section 5.09. Investment of Moneys. Except as otherwise provided herein, all moneys in any of the funds or accounts established pursuant to this Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Community Facilities District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the Community Facilities District, the Trustee shall invest any funds held by it in Permitted Investments described in paragraph 6 of the definition thereof.

Subject to the provisions of Section 5.06, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to this Indenture (other than the Reserve Fund) shall be retained therein. Any interest or profits or other income received with respect to investments held in the Reserve Fund shall be transferred to the Earnings Fund; provided, however, that, notwithstanding the foregoing, any such transfer shall be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

Permitted Investments acquired as an investment of moneys in any fund or account established under this Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Community Facilities District, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to this Section. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established hereunder.

ARTICLE VI

COVENANTS

Section 6.01. Collection of Special Tax Revenues. (a) The Community Facilities District shall comply with all requirements of the Act, the Ordinance and this Indenture so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes; provided, however, that the Community Facilities District shall have the right to waive delinquency penalties and redemption penalties in accordance with the provisions of subdivision (e) of Section 53340 of the Act.

(b) Prior to August 1 of each year, the Community Facilities District shall ascertain from the County Assessor the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. The Community Facilities District shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires in order to include the levy of the Special Taxes on the next real property tax roll.

(c) The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established hereunder.

(d) The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Section 6.02. Foreclosure. Pursuant to Section 53356.1 of the Act, the Community Facilities District hereby covenants with and for the benefit of the Owners that it will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,000 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings; provided, however, that, notwithstanding the foregoing,

the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost.

Section 6.03. Compliance with Act. The Community Facilities District shall comply with all applicable provisions of the Act.

Section 6.04. Punctual Payment. The Community Facilities District shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in this Indenture and received by the Community Facilities District or the Trustee.

Section 6.05. Extension of Payment of Bonds. The Community Facilities District 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 this 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 shall be deemed to limit the right of the Community Facilities District 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.

Section 6.06. Against Encumbrances; Defense of Pledge. The Community Facilities District shall not create, or permit the creation of, any pledge of, lien on, security interest in or charge or other encumbrance upon the assets pledged under this Indenture, except as permitted hereby. The Community Facilities District shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of such assets, and the lien thereon and security interest therein created hereby, against all claims and demands of all Persons whomsoever.

Section 6.07. Tax Covenants. (a) The Community Facilities District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2012 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Community Facilities District shall comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein. This covenant shall survive payment in full or defeasance of the Series 2012 Bonds.

(b) In the event that at any time the Community Facilities District is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established hereunder, the

Community Facilities District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this Section, if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2012 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

Section 6.08. Continuing Disclosure. Each of the Community Facilities District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of this Indenture, failure of the Community Facilities District or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2012 Bonds, and upon receipt of indemnification reasonably satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of the Series 2012 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Section 6.09. Non-Cash Payments of Special Taxes. The Community Facilities District shall not authorize owners of taxable parcels within the Community Facilities District to satisfy Special Tax obligations by the tender of Bonds unless the Community Facilities District shall have first obtained a report of an Independent Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

Section 6.10. Reduction in Special Taxes. The Community Facilities District shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

Section 6.11. Accounting Records. The Community Facilities District shall keep or cause to be kept appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Special Taxes, which records shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions.

Section 6.12. State Reporting. If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal of or interest on the Bonds, the Trustee shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within ten days of the failure to make such payment or the date of such withdrawal.

Section 6.13. Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2013 and continuing until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other Person in connection with any error in any such information.

Section 6.14. Further Assurances. The Community Facilities District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the rights and benefits provided in this Indenture.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default. The following events shall be Events of Default:

(a) failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;

(b) failure to pay any installment of interest on any Bonds when and as the same shall become due and payable;

(c) failure by the Community Facilities District to observe and perform any of the other covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Community Facilities District by the Trustee, or to the Community Facilities District and the Trustee by the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 30 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(d) the commencement by the Community Facilities District or the County of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Section 7.02. Foreclosure. If an Event of Default shall occur under Section 7.01(a) or Section 7.01(b) then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the Community Facilities District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

Section 7.03. Other Remedies. If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

(a) by mandamus, suit, action or proceeding, to compel the Community Facilities District and its officers, agents or employees to perform each and every term, provision and covenant contained in this Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Community Facilities District and the fulfillment of all duties imposed upon it by this Indenture and the Act;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the rights of the Trustee or the Owners; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Community Facilities District and its officers and employees to account as if it and they were the trustees of an express trust.

Section 7.04. 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.

Section 7.05. Application of Net Special Tax Revenues After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of this 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 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 this Indenture;

(b) to the payment of the principal and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture, as follows:

First: to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(c) any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

Section 7.06. Power of Trustee to Enforce. All rights of action under this 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 the Owners of such Bonds, subject to the provisions of this Indenture.

Section 7.07. Owners' Direction of Proceedings. Anything in this 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; provided, however, that such direction shall not be otherwise than in accordance the provisions of this Indenture, the Act and other applicable law and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Section 7.08. Limitation on Owners' Right to Sue. 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 this Indenture, the Act or any other applicable law with respect to such Bond, 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 said Owners shall have tendered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners, or to enforce any right under the Bonds, this Indenture, the Act 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, subject to the provisions of this Indenture.

Section 7.09. Absolute Obligation. Nothing in this Indenture or the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Net Special Tax 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.

Section 7.10. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more 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 Owners, then in every such case the Community Facilities District, the Trustee and the 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 Community

Facilities District, the Trustee and the Owners shall continue as though no such proceedings had been taken.

Section 7.11. No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by this Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII

TRUSTEE

Section 8.01. Duties and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Section 8.02. Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party hereto and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank 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 the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Community Facilities District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party hereto and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party hereto and any successor thereto if (i) at any time requested to do so by an instrument or concurrent instruments in writing signed 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 (ii) the Trustee shall cease to be eligible in accordance with subsection (a) of this Section, 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.

(c) The Trustee may at any time resign by giving written notice of such resignation by first-class mail, postage prepaid, to the Community Facilities District, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of subsection (a) of this Section, the Trustee shall resign immediately in the manner and with the effect specified in this Section.

(d) Upon removal or resignation of the Trustee, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. 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 any successor Trustee shall be

qualified as provided in subsection (a) of this Section. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Community Facilities District 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 Community Facilities District 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 this 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 acceptance of appointment by a successor Trustee as provided in this subsection, the successor Trustee shall, within 15 days after such acceptance, mail, by first-class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under subsection (a) of this Section, 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.

Section 8.03. Liability of Trustee. (a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Community Facilities District, and the Trustee shall not assume responsibility for the correctness of the same or 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.

(b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of any Bonds, or in respect of the security afforded by this Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the Community Facilities District or others in accordance with this Indenture.

(c) The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

(d) No provision of this Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties hereunder through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) 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.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under Article VII, under this Article or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) 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 this Indenture.

(j) 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 Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

(k) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it hereunder if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an Event of Default hereunder unless it has actual knowledge thereof.

Section 8.04. Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by this 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 of the Community Facilities District, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(c) The Trustee may consult with counsel, who may be counsel to the Community Facilities District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Section 8.05. 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 prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Special Tax Revenues received by it and all funds and accounts established by it pursuant to this Indenture. Such books of record and account shall be available for inspection by the Community Facilities District during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Community Facilities District a monthly accounting of the funds and accounts it holds under this Indenture; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Section 8.06. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the Community Facilities District, the Owners and their agents and representatives duly authorized in writing.

Section 8.07. Compensation and Indemnification. The Community Facilities District shall pay to the Trustee from time to time from Special Tax Revenues all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under this Indenture, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Indenture. The Community Facilities District shall, to the extent permitted by law, from Special Tax Revenues, indemnify and save the Trustee harmless against any costs, claims, expenses and liabilities which it may incur in the exercise and performance of its powers and duties hereunder (including reasonable legal fees and expenses of counsel retained by the Trustee in connection with the performance of its duties hereunder), including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the Community Facilities District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of this Indenture.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.01. Supplemental Indentures. (a) This Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners hereunder may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into when there are filed with the Trustee the written consents of the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 11.07. No such modification or amendment shall (i) extend the fixed maturity of any Bond, reduce the amount of principal thereof or the rate of interest thereon, extend the time of payment thereof or alter the redemption provisions thereof, without the consent of the Owner of each Bond so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under this Indenture prior to or on a parity with the pledge contained in, and the lien and security interest created by, this Indenture or deprive the Owners of the pledge contained in, and the lien and security interest created by, this Indenture, except as expressly provided in this Indenture, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify or amend this Section without the prior written consent of the Owners of all Bonds then Outstanding.

(b) This Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners hereunder may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Community Facilities District in this 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 Community Facilities District;

(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 this Indenture, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners hereunder;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of Article III;

(iv) to permit the qualification of this Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(v) to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Community Facilities District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners hereunder.

(c) Promptly after the execution by the Community Facilities District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Community Facilities District), by first-class mail, postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Community Facilities District, the Trustee and the Owners 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 this Indenture for any and all purposes.

Section 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the effective date of any Supplemental Indenture pursuant to this Article may and, if the Community Facilities District so determines, shall bear a notation by endorsement or otherwise in form approved by the Community Facilities District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date and presentation of such Bond for such purpose at the Office of the Trustee 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 Community Facilities District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Community Facilities District and authenticated by the Trustee and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, such a new Bond in equal principal amount of the same Series, interest rate and maturity shall be exchanged for such Owner's Bond so surrendered.

Section 9.04. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. (a) If the Community Facilities District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated herein and therein, then the Owners shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided herein, and all agreements, covenants and other obligations of the Community Facilities District hereunder shall thereupon cease, terminate and become void and this Indenture shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Community Facilities District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Community Facilities District all money or securities held by it pursuant hereto which are not required for the payment of the principal of and interest and premium, if any, on the Bonds.

(b) Subject to the provisions of subsection (a) of this Section, when any Bond shall have been paid and if, at the time of such payment, the Community Facilities District shall have kept, performed and observed all of the covenants and promises in such Bonds and in this Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then this Indenture shall be considered to have been discharged in respect of such Bond and such Bond shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided herein, and all agreements, covenants and other obligations of the Community Facilities District hereunder shall cease, terminate, become void and be completely discharged and satisfied as to such Bond.

(c) Notwithstanding the discharge and satisfaction of this Indenture or the discharge and satisfaction of this Indenture in respect of any Bond, those provisions of this Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Bond, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on such Bond, and to pay to the Owner of such Bond the funds so held by the Trustee as and when such payment becomes due.

Section 10.02. Bonds Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond shall be deemed to have been paid within the meaning and with the effect provided in Section 10.01. Any Outstanding Bond shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in Section 10.01 if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Community Facilities District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of Section 4.02 notice of redemption of such Bond on said redemption date, said notice to be given in accordance with Section 4.02, (ii) there shall have been

deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, together with the money, if any, deposited therewith, will provide moneys which shall be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the Community Facilities District shall have given the Trustee, in form satisfactory to it, irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Bond that the deposit required by clause (ii) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with this Section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bond.

(b) No Bond shall be deemed to have been paid pursuant to clause (ii) of subsection (a) of this Section unless the Community Facilities District shall have caused to be delivered to the Community Facilities District and the Trustee (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of subsection (a) of this Section resulting in such deemed payment, which escrow agreement shall be in form and in substance acceptable to the Community Facilities District and the Trustee and which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report, and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (iii) a copy of an opinion of Bond Counsel, dated the date of such deemed payment and addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, to the effect that such Bond has been paid within the meaning and with the effect expressed in this Indenture, this Indenture has been discharged in respect of such Bond and all agreements, covenants and other obligations of the Community Facilities District hereunder as to such Bond have ceased, terminated, become void and been completely discharged and satisfied.

Section 10.03. Unclaimed Moneys. Subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the principal of, or premium or interest on, any Bond which remain unclaimed for two years after the date when such principal, premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, premium or interest become payable, shall be repaid by the Trustee to the Community Facilities District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Bond shall look only to the Community Facilities District for the payment of such principal, premium or interest.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Successor Is Deemed Included in All References to Predecessor.

Whenever in this Indenture either the Community Facilities District 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 this Indenture contained required hereby to be performed by or on behalf of the Community Facilities District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.02. Limitation of Rights. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the Community Facilities District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this 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 Trustee, the Community Facilities District and the Owners of the Bonds.

Section 11.03. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Community Facilities District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

Section 11.04. Severability of Invalid Provisions. If any one or more of the provisions contained in this 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 this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Community Facilities District hereby declares that it would have entered into this Indenture and each and every other Section, subsection, 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, subsections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

Section 11.05. Notices. Any written notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication to be given hereunder shall be given to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the Community Facilities District:

County Executive Officer
County of Riverside
4080 Lemon Street, 4th Floor
Riverside, California 92501
Ref.: CFD No. 04-2, Series 2012
Attention: Special District Administrator

If to the Trustee:

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 400
Los Angeles, California 90071
Attention: Corporate Trust Department

Each such notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication hereunder shall be deemed delivered to the party to whom it is addressed (a) if given by courier or delivery service or if personally served or delivered, upon delivery, (b) if given by telecopier, upon the sender's receipt of an appropriate answerback or other written acknowledgment, (c) if given by registered or certified mail, return receipt requested, deposited with the United States mail postage prepaid, 72 hours after such notice is deposited with the United States mail, or (d) if given by any other means, upon delivery at the address specified in this Section.

Section 11.06. Evidence of Rights of Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the Community Facilities District if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Community Facilities District in accordance therewith or reliance thereon.

Section 11.07. 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 this Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Community Facilities District, 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 Community Facilities District 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 Community Facilities District 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 Community Facilities District shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

Section 11.08. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium 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 10.03 but without any liability for interest thereon.

Section 11.09. Funds and Accounts. Any fund or account required by this 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 prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements hereof and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations hereunder.

Section 11.10. Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in this Indenture and, unless otherwise specifically provided in this Indenture, no interest shall accrue for the period from and after such nominal date

Section 11.11. Waiver of Personal Liability. No member, officer, agent or employee of the Community Facilities District or the County shall be individually or personally liable for the payment of the principal of or premium or interest 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 any applicable provision of law or by this Indenture.

Section 11.12. Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of Articles and Sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Section 11.13. Conflict with Act. In the event of any conflict between any provision of this Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of this Indenture.

Section 11.14. Conclusive Evidence of Regularity. Bonds issued pursuant to this Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Section 11.15. Governing Laws. This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 11.16. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Community Facilities District has caused this Indenture to be signed in its name by its representative thereunto duly authorized, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**COMMUNITY FACILITIES DISTRICT
NO. 04-2 (LAKE HILLS CREST) OF
THE COUNTY OF RIVERSIDE**

[SEAL]

By: _____
Chairman of the Legislative Body of
Community Facilities District No. 04-2
(Lake Hills Crest) of the County of
Riverside

ATTEST:

Clerk of the Legislative Body of Community
Facilities District No. 04-2 (Lake Hills Crest)
of the County of Riverside

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., AS TRUSTEE**

By: _____
Authorized Officer

EXHIBIT A

PERMITTED INVESTMENTS

“Permitted Investments” means the following, to the extent that such securities are otherwise eligible legal investments of the Community Facilities District:

(1) 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);

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including a fund for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior

to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) or (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "Aa3" by Moody's and "AA-" by S&P; provided, that, by the terms of the investment agreement:

(a) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice;

(b) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, 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;

(c) the Trustee or the Community Facilities District receive the opinion of domestic counsel that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable);

(d) the investment agreement shall provide that if during its term (i) the provider's rating by either Moody's or S&P falls below "Aa3" or "AA-," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a 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 Moody's and S&P 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, and (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A3" or "A-," respectively, the provider must, at the direction of the Community Facilities District or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee;

(e) the investment agreement shall state, and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the holder of 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 collateral is in possession); and

(f) the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Community Facilities District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

(10) The Local Agency Investment Fund maintained by the Treasurer of the State; and

(11) The investment pool maintained by the Treasurer of the County.

EXHIBIT B

FORM OF SERIES 2012 BOND

No. _____

\$ _____

**COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX REFUNDING BOND, SERIES 2012**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP
%	September 1, 20__	_____, 2012	

REGISTERED OWNER:

PRINCIPAL AMOUNT:

Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District"), for value received, hereby promises to pay, solely from the sources hereinafter described, to the Registered Owner identified above or registered assigns (the "Registered Owner"), on the Maturity Date identified above or on any earlier redemption date, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Interest Rate identified above in like lawful money from the date hereof payable semiannually on March 1 and September 1 in each year, commencing March 1, 2013 (the "Interest Payment Dates"), until payment of such Principal Amount in full.

This Bond is one of a series of a duly authorized issue of bonds approved by the qualified electors of the Community Facilities District, pursuant to the Mello-Roos Community Facilities Act of 1982, constituting Sections 53311 *et seq.* of the California Government Code (the "Act"), and issued for the purpose of providing a portion of the amounts required to refund certain previously issued obligations of the Community Facilities District, and is one of the series of bonds designated "Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012" (the "Series 2012 Bonds") in the aggregate principal amount of \$ _____. The Series 2012 Bonds are issued pursuant to the Indenture, dated as of _____, 2012 (the "Indenture"), by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as trustee (said entity or any successor thereto as trustee under the Indenture, the "Trustee"), and this reference incorporates the Indenture herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. Pursuant to and as more particularly provided in the Indenture, additional bonds ("Additional Bonds") may be issued by the Community Facilities District on a parity with the Series 2012 Bonds. The Series 2012 Bonds and any Additional Bonds are collectively referred to as the "Bonds." The Indenture is entered into, and this Bond is issued

under, the Act and the laws of the State of California. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

Interest on the Series 2012 Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon shall be payable from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for. Interest shall be paid in lawful money of the United States on each Interest Payment Date. Interest shall be paid by check of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Owners of the Series 2012 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any Series 2012 Bond which is not punctually paid or duly provided for on any Interest Payment Date shall, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series 2012 Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which shall be given to such Owner not less than ten days prior to such special record date. The principal of the Series 2012 Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

The Bonds are special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor thereunder. Neither the faith and credit nor the taxing power of the Community Facilities District (except to the limited extent set forth in the Indenture), the County or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

Pursuant to and as more particularly provided in the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act, the Community Facilities District pledges to the Owners, and grants thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Said pledge constitutes a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Community Facilities District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

Pursuant to the Act and the Indenture, the principal of and interest on the Bonds are payable solely from the annual special tax authorized under the Act to be collected within the

Community Facilities District to finance specified public facilities (the "Special Tax"), after the payment therefrom of certain administrative expenses, and certain funds held under the Indenture. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Net Special Tax Revenues (as defined in the Indenture) and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund and the Redemption Fund established under the Indenture are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets.

The Series 2012 Bonds are subject to redemption on the dates, at the Redemption Prices and pursuant to the terms set forth in the Indenture. Notice of redemption of any Series 2012 Bond or any portion thereof shall be given as provided in the Indenture.

The Series 2012 Bonds are issuable as fully-registered Bonds without coupons in Authorized Denominations (\$5,000 and any integral multiple thereof).

Any Series 2012 Bond may be transferred upon the Registration Books by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Series 2012 Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Series 2012 Bond or Series 2012 Bonds shall be so surrendered for transfer, the Community Facilities District shall execute and the Trustee shall authenticate and shall deliver a new Series 2012 Bond or Series 2012 Bonds of the same maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The Series 2012 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Series 2012 Bonds of the same maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners may be modified or amended in the manner, to the extent, and upon the terms provided in the Indenture.

The Indenture contains provisions permitting the Community Facilities District to make provision for the payment of the principal of and the interest and premium, if any, on any of the Bonds so that such Bonds shall no longer be deemed to be Outstanding under the terms of the Indenture.

All obligations of the Community Facilities District under the Indenture shall be special obligations of the Community Facilities District, payable solely from Special Tax Revenues and the other assets pledged therefor thereunder; provided, however, that all obligations of the Community Facilities District under the Bonds shall be special obligations of the Community Facilities District, payable solely from Net Special Tax Revenues and the other assets pledged therefor thereunder. Neither the faith and credit nor the taxing power of the Community Facilities District (except to the limited extent set forth herein and in the Indenture), the County

of Riverside or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the Trustee for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, the Community Facilities District has caused this Bond to be signed in its name and on its behalf by the facsimile signatures of the Chairman of the Legislative Body of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, by his facsimile signature, and attested to by the facsimile signature of the Clerk of the Legislative Body of Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, all as of the Dated Date identified above.

**COMMUNITY FACILITIES DISTRICT
NO. 04-2 (LAKE HILLS CREST) OF
THE COUNTY OF RIVERSIDE**

By: _____
Chairman of the Legislative Body

ATTEST:

Clerk of the Legislative Body

CERTIFICATE OF AUTHENTICATION

This is one of the Series 2012 Bonds described in the within-mentioned Indenture and registered on the Registration Books.

Date: _____, 2012

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., AS TRUSTEE**

By: _____
Authorized Officer

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____, whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____, attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

CONTINUING DISCLOSURE AGREEMENT

by and between

**COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE**

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
AS TRUSTEE**

Dated as of _____ 1, 2012

**Community Facilities District No. 04-2 (Lake Hills Crest)
of the County of Riverside
Special Tax Refunding Bonds, Series 2012**

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), dated as of _____ 1, 2012, is by and between the COMMUNITY FACILITIES DISTRICT NO. 04-2 (LAKE HILLS CREST) OF THE COUNTY OF RIVERSIDE, a community facilities district organized and existing under and by virtue of the laws of the State of California (the "Community Facilities District"), and 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, as Trustee (the "Trustee").

WITNESSETH:

WHEREAS, pursuant to the Indenture, dated as of _____ 1, 2012 (the "Indenture"), by and between the Community Facilities District and the Trustee, the Community Facilities District has issued the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"), in the aggregate principal amount of \$ _____; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Community Facilities District and the Trustee for the benefit of the holders and beneficial owners of the Series 2012 Bonds and in order to assist the underwriters of the Series 2012 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Disclosure Agreement have the meanings herein specified. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

"Annual Report" means any Annual Report provided by the Community Facilities District pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is the first day of the month following the ninth month after the end of the Community Facilities District's fiscal year, which date, as of the date of this Disclosure Agreement, is April 1.

"Community Facilities District" means Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside, a community facilities district organized and existing under the laws of the State, and any successor thereto.

"Disclosure Representative" means the County Executive Officer of the County of Riverside, or such other person as the Community Facilities District shall designate in writing to the Trustee from time to time.

“Dissemination Agent” means Albert A. Webb Associates, as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Trustee a written acceptance of such designation.

“Indenture” means the Indenture, dated as of _____ 1, 2012, by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as originally executed and as it may be amended or supplemented from time to time in accordance with its terms.

“Listed Events” means any of the events listed in subsection (a) or subsection (b) of Section 4 hereof.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement, dated _____, 2012, relating to the Series 2012 Bonds.

“Participating Underwriter” means any of the original underwriters of the Series 2012 Bonds required to comply with the Rule in connection with the offering of the Series 2012 Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as Trustee under the Indenture, or any successor thereto as Trustee thereunder, substituted in its place as provided therein.

Section 2. Provision of Annual Reports. (a) The Community Facilities District shall, or shall cause the Dissemination Agent to, provide to the MSRB an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2011-12 Fiscal Year. The Annual Report may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the Community Facilities District, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Community Facilities District’s fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the Community Facilities District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not

the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Community Facilities District and the Dissemination Agent to determine if the Community Facilities District is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) provide any Annual Report received by it to the MSRB, as provided herein; and

(ii) file a report with the Community Facilities District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

Section 3. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) The Community Facilities District's audited financial statements, if any, 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. If the Community Facilities District's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements, in a format similar to that used for the Community Facilities District's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The principal amount of Series 2012 Bonds Outstanding and the principal amount of Bonds Outstanding as of the September 30 next preceding the Annual Report Date.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement as of the September 30 next preceding the Annual Report Date.

(iii) The aggregate assessed value of all parcels within the Community Facilities District on which the Special Taxes are levied in each property classification under the Rate and Method, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the number of units in each property classification under the Rate and Method for the then

current fiscal year, and a statement of assessed value-to-lien ratios therefor, either by individual parcel or by categories (e.g. "below 3:1", "3:1 to 4:1" etc.).

(iv) The Special Tax delinquency rate for all parcels within the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the number of parcels within the Community Facilities District on which the Special Taxes are levied and which are delinquent in payment of Special Taxes, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the amount of each delinquency, the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the Community Facilities District; provided, however, that parcels with aggregate delinquencies of \$2,000 or less (excluding penalties and interest) may be grouped together and such information may be provided by category.

(v) The status of foreclosure proceedings for any parcels within the Community Facilities District on which the Special Taxes are levied and a summary of the results of any foreclosure sales as of the September 30 next preceding the Annual Report Date.

(vi) The identity of any property owner representing more than 5% of the annual Special Tax levy who is delinquent in payment of such Special Taxes, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date.

(vii) A land ownership summary listing property owners responsible for more than 1% of the annual Special Tax levy, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll; provided, however, that if more than ten property owners are each responsible for more than 1% of such Special Tax levy, such information need only be provided for the ten property owners responsible for the greatest portion of such Special Tax levy.

(c) In addition to any of the information expressly required to be provided under the preceding paragraphs (a) and (b), the Community Facilities District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been made available to the public on the MSRB's website. The Community Facilities District shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar event of the Community Facilities District.

For purposes of the event identified in paragraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) Unless described in paragraph (v) of subsection (a) of this Section, other material notices or determinations by the Internal Revenue Service with

respect to the tax status of the Series 2012 Bonds or other material events affecting the tax status of the Series 2012 Bonds.

- (ii) Modifications to rights of holders of the Series 2012 Bonds.
- (iii) Optional, unscheduled or contingent Series 2012 Bond calls.
- (iv) Release, substitution, or sale of property securing repayment of the Series 2012 Bonds.
- (v) Non-payment related defaults.
- (vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (vii) Appointment of a successor or additional Trustee or the change of name of a Trustee.

(c) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative and inform such person of the event.

(d) If a Listed Event described in subsection (b) of this Section occurs, the Community Facilities District shall determine if such event would be material under applicable Federal securities law.

(e) If a Listed Event described in subsection (a) of this Section occurs, or if the Community Facilities District determines that the occurrence of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities law, the Community Facilities District shall, or shall cause the Dissemination Agent to, file a notice of the occurrence of such Listed Event with the MSRB, within ten business days of such occurrence.

(f) Notwithstanding the foregoing, notices of Listed Events described in paragraph (vii) of subsection (a) of this Section and paragraph (iii) of subsection (b) of this Section need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected Series 2012 Bonds pursuant to the Indenture.

Section 5. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Community Facilities District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior

redemption or payment in full of all of the Series 2012 Bonds. If such termination occurs prior to the final maturity of the Series 2012 Bonds, the Community Facilities District shall give notice of such termination in a filing with the MSRB.

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the Community Facilities District and the Trustee. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Community Facilities District; provided, however, that the Trustee shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) or (b) of Section 4 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2012 Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2012 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the Series 2012 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Owners or Beneficial Owners of the Series 2012 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Community Facilities District shall describe such amendment or waiver in the 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 Community Facilities District. 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 a filing with

the MSRB, 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 Disclosure Agreement shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Community Facilities District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Community Facilities District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 10. Default. In the event of a failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding Series 2012 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any Owner or Beneficial Owner of the Series 2012 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement. To the extent permitted by law, the Community Facilities District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur 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, and which are not due to its negligence or its willful misconduct. The obligations of the Community Facilities District under

this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2012 Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Trustee, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Series 2012 Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**COMMUNITY FACILITIES DISTRICT
NO. 04-2 (LAKE HILLS CREST) OF
THE COUNTY OF RIVERSIDE**

By: _____

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., AS TRUSTEE**

By: _____
Authorized Officer

ACKNOWLEDGED AND ACCEPTED:

ALBERT A. WEBB ASSOCIATES, AS
DISSEMINATION AGENT

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside

Name of Bond Issue: Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012

Date of Issuance: _____, 2012

NOTICE IS HEREBY GIVEN that Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of _____ 1, 2012, by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as Trustee. [The Community Facilities District anticipates that the Annual Report will be filed by _____, 20__.]

Dated: _____

The Bank of New York Mellon Trust Company, N.A., as Trustee, on behalf of the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside

cc: Community Facilities District No. 04-2
(Lake Hills Crest) of the County of Riverside

**AGREEMENT
FOR
BOND COUNSEL SERVICES**

Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside

THIS AGREEMENT (this "Agreement"), dated as of _____, 2012, is by and between the COUNTY OF RIVERSIDE (the "County") and ORRICK, HERRINGTON & SUTCLIFFE LLP ("Bond Counsel").

WITNESSETH

WHEREAS, the County previously established Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "Community Facilities District") and authorized the levy of special taxes upon the land within the Community Facilities District;

WHEREAS, the Community Facilities District previously issued bonds payable from such special taxes (the "Prior Bonds") to finance certain road facilities and appurtenances and bridge facilities;

WHEREAS, the County desires that the Community Facilities District issue bonds (the "Bonds") to refund the Prior Bonds;

WHEREAS, the County desires to employ Bond Counsel to provide legal services incident to the issuance and sale of the Bonds; and

WHEREAS, Bond Counsel possesses the necessary professional capabilities and resources to provide the legal services required by the County as described in this Agreement;

NOW, THEREFORE, it is mutually agreed by the parties hereto as follows:

Section 1. Scope of Services. (a) Bond Counsel shall perform the following legal services in connection with the issuance and sale of Bonds:

(i) consultation with representatives of the County, including the County Counsel, the special tax consultant, the financial advisor, the underwriter, underwriter's counsel and others, concerning the proposed financing and its timing, terms and structure, and including the rendering of legal advice with respect to the proceedings deemed necessary or desirable to comply with all requirements of law preliminary to the authorization, issuance and sale of the Bonds;

(ii) preparation of documents to be adopted or entered into by the Community Facilities District required for the issuance of the Bonds and the refunding of the Prior Bonds, including preparation of the authorizing resolution, the indenture providing for the issuance of the Bonds and the escrow agreement (the "Major Legal Documents");

(iii) preparation of the continuing disclosure agreement to be entered into in connection with the issuance of the Bonds; provided, however, that, as Rule 15c2-12 applies only to underwriters, compliance with such rule will be the responsibility of underwriter's counsel, and that if, as a result, the continuing disclosure agreement is prepared by underwriter's counsel, all references to that document contained in this Agreement shall be deemed deleted;

(iv) preparation of summaries of the Major Legal Documents included in the official statement;

(v) attendance at such County Board of Supervisors meetings and working group meetings or conference calls as the County may request, and assistance to the County staff in preparation of such explanations or presentations to the County Board of Supervisors as such staff may request;

(vi) preparation of final closing papers to be executed by the Community Facilities District required to effect delivery of the Bonds (including the tax certificate) and coordination of the closing;

(vii) rendering of Bond Counsel's customary final legal opinion on the validity of the Bonds and the tax-exempt status of interest thereon; and

(viii) such other legal services as may be incidental to the foregoing.

(b) The County shall and will rely on County Counsel to render day to day and ongoing general counsel legal services. Bond Counsel shall circulate documents to and coordinate its services with County Counsel to the extent requested by the County or County Counsel. Bond Counsel shall be entitled to assume that County Counsel has reviewed all documents and matters submitted to the County for adoption or approval or to officers of the County for execution prior to such adoption, approval or execution.

In rendering opinions and performing legal services under this Agreement, Bond Counsel shall be entitled to rely on the accuracy and completeness of information provided and certifications made by, and opinions provided by counsel to, the County and other parties and consultants, without independent investigation or verification.

Bond Counsel services are limited to those specifically set forth in this Section. Bond Counsel services do not include any services beyond those set forth in this Section, including, without limitation (i) any representation of the County or any other party in any litigation or other legal or administrative proceeding involving any of the Bonds or any related matter, (ii) the preparation of any bond purchase agreement or credit enhancement agreement or the preparation or review of any investment agreement, (iii) any responsibility for compliance with federal or state securities laws, environmental, land use, real estate, any tax laws (except as required for tax exemption of the interest on the Bonds), insurance or similar laws or matters or for title to or perfection of security interests in real or personal property, or (iv) any financial advice or analysis. Bond Counsel will not be responsible for the services performed or acts or omissions of

any other participant. Also, Bond Counsel services with respect the Bonds will not extend past the date of issuance of the Bonds and will not, for example, include services related to rebate compliance or continuing disclosure (although Bond Counsel may be available for separate engagement to provide either or both such services pursuant to separate contract) or otherwise related to the Bonds.

Section 2. Compensation. For the legal services described in subsection (a) of Section 1 hereof, Bond Counsel shall be paid a flat fee of \$55,000.

In addition to the fee provided above, Bond Counsel shall be paid a flat amount of \$1,000 to cover costs and expenses (direct and indirect) incurred in connection with the legal services rendered pursuant hereto, including (without limitation) document reproduction and delivery, travel, long distance telephone, telecopy, word processing, computer research, secretarial overtime, final transcripts and other similar expenses.

The fee payable to Bond Counsel pursuant to this Section is based, in part, upon the assumption that the scope of services will conform to the description thereof contained in subsection (a) of Section 1 hereof, the transaction will not have an extraordinary amount of problems/issues, Bond Counsel will be required to attend no more than the usual number of meetings and conference calls, Bond Counsel will not be required to generate an inordinate amount of drafts of the Major Legal Documents and the structure of the transaction will not materially change (particularly after preparation of the Major Legal Documents has commenced). If any part of this assumption is incorrect, or if any unusual or unforeseen circumstances arise, and occasion substantial additional work or responsibility on the part of Bond Counsel, Bond Counsel will be entitled to seek additional compensation in such amount as the County and Bond Counsel shall mutually agree to be appropriate.

Bond Counsel's fee and expenses shall be payable by the County at or after the issuance of the Bonds. Payment of such fee and expenses shall be made from proceeds of the Bonds and shall be entirely contingent upon the issuance of the Bonds.

Section 3. Termination of Agreement and Legal Services. This Agreement and all legal services to be rendered under it may be terminated at any time by written notice from either party, with or without cause. In that event, all finished and unfinished documents prepared for adoption or execution by the County, shall, at the option of the County, become its property and shall be delivered to it or to any party it may designate; provided that Bond Counsel shall have no liability whatsoever for any subsequent use of such documents. In the event of termination by the County, Bond Counsel shall be paid for all satisfactory work at its usual hourly rates unless the termination is made for cause, in which event compensation, if any, shall be adjusted in the light of the particular facts and circumstances involved in the termination. If not sooner terminated as aforesaid, this Agreement and all legal services to be rendered under it shall terminate upon the issuance of the Bonds; provided that the County shall remain liable for any unpaid compensation or reimbursement due under Section 2 hereof. Upon termination, Bond Counsel shall have no future duty of any kind to or with respect to the Bonds or the County. For various cost and other reasons, Bond Counsel reserves the right to dispose, in any manner it chooses, of any documents or other materials retained by it after such termination.

Section 4. Nature of Engagement; Relationships With Other Parties. The role of bond counsel, generally, is to prepare or review the procedures for issuance of the bonds, notes or other evidence of indebtedness and to provide an expert legal opinion with respect to the validity thereof and other subjects (usually including the tax status of interest on the bonds) addressed by the opinion. Consistent with the historical origin and unique role of bond counsel, and reliance thereon by the public finance market, Bond Counsel's role as bond counsel under this Agreement is to provide opinions and related legal services that represent an objective judgment on the matters addressed rather than the partisan position of an advocate.

In performing its services as bond counsel in connection with the Bonds, Bond Counsel will act as bond counsel to the County with respect to the issuance of the Bonds; that is, Bond Counsel will assist County Counsel in representing the County but only with respect to the validity of the Major Legal Documents and the tax status of interest on the Bonds, and in a manner not inconsistent with the role of bond counsel described in the first sentence of this Section.

The County acknowledges that Bond Counsel regularly performs legal services for many private and public entities in connection with a wide variety of matters. For example, Bond Counsel has represented, is representing or may in the future represent other public entities, underwriters, trustees, rating agencies, insurers, credit enhancement providers, lenders, contractors, suppliers, financial and other consultants/advisors, accountants, investment providers/brokers, providers/brokers of derivative products and others who may have a role or interest in the financing or that may be involved with or adverse to the County in this or some other matter. Bond Counsel agrees not to represent any such entity in connection with the issuance of the Bonds, during the term of this Agreement, without the consent of the County, except possibly with respect to investment or derivative products where, because Bond Counsel has assisted a number of the providers/brokers in designing and developing their products and provides general and transactional advice with respect to such products, it is not practical to seek specific consent in each case, and instead Bond Counsel agrees to separate the attorneys working on the financings pursuant to this Agreement from the attorneys working on the investment or derivative products. Given the special, limited role of bond counsel described above, the County acknowledges that no conflict of interest exists or would exist, and waives any actual or potential conflict of interest that might be deemed to arise, now or in the future, from this Agreement or any such other relationship that Bond Counsel may have had, have or enter into, and the County specifically consents to any and all such relationships.

Section 5. Limitation of Rights to Parties; Successor and Assigns. Nothing in this Agreement or in any of the documents contemplated hereby, expressed or implied, is intended or shall be construed to give any person other than the County and Bond Counsel any legal or equitable right or claim under or in respect of this Agreement, and this Agreement shall inure to the sole and exclusive benefit of the County and Bond Counsel.

Bond Counsel may not assign its obligations under this Agreement without written consent of the County except to a successor partnership or corporation to which all or substantially all of the assets and operations of Bond Counsel are transferred. The County may assign its rights and obligations under this Agreement to (but only to) the Community Facilities

District. The County shall not otherwise assign its rights and obligations under this Agreement without written consent of Bond Counsel. All references to Bond Counsel and the County in this Agreement shall be deemed to refer to any such successor of Bond Counsel and to any such assignee of the County and shall bind and inure to the benefit of such successor and assignee whether so expressed or not.

Section 6. Counterparts. This Agreement may be executed in any number of counterparts and each counterpart shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same Agreement.

Section 8. Applicable Law. This Agreement and all amendments, modifications, alterations or supplements hereto, and the rights of the parties hereunder, shall be construed under and governed by, the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

COUNTY OF RIVERSIDE

By: _____
Chairman of the Board of Supervisors

ATTEST:
Kecia Harper-Ihem
Clerk of the Board of Supervisors

By: _____
Deputy

**ORRICK, HERRINGTON &
SUTCLIFFE LLP**

By: _____
Greg Harrington, Partner

§ _____
**COMMUNITY FACILITIES DISTRICT NO. 04-2
(LAKE HILLS CREST)
OF THE COUNTY OF RIVERSIDE
SPECIAL TAX REFUNDING BONDS, SERIES 2012**

BOND PURCHASE AGREEMENT

_____, 2012

Community Facilities District No. 04-2
(Lake Hills Crest) of the County of Riverside
c/o County of Riverside
County Executive Officer
4080 Lemon Street, 4th Floor
Riverside, California 92501

Ladies and Gentlemen:

E. J. De La Rosa & Co., Inc. (the "Underwriter"), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement with the Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside (the "District"), which, upon acceptance, will be binding upon the District and upon the Underwriter. This offer is made subject to acceptance of it by the District on the date hereof, and if not accepted will be subject to withdrawal by the Underwriter upon notice delivered to the District at any time prior to the acceptance hereof by the District. The District has been formed by and is located in the County of Riverside, California (the "County").

The Underwriter hereby acknowledges that it is duly authorized to execute this Bond Purchase Agreement and to take all action required or permitted to be taken hereunder by or on behalf of the Underwriter. Any authority, discretion or other power conferred upon the Underwriter by this Bond Purchase Agreement may be executed by the representative alone. Capitalized terms not otherwise defined herein shall have the meaning provided in the Indenture (defined below).

1. Purchase, Sale and Delivery of the Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter agrees to purchase from the District, and the District agrees to sell to the Underwriter, all (but not less than all) of the \$ _____ Community Facilities District No. 04-2 (Lake Hills Crest) of the County of Riverside Special Tax Refunding Bonds, Series 2012 (the "Bonds"). The Bonds shall be dated the Closing Date (hereinafter defined), and bear interest (payable semiannually on March 1 and September 1 in each year, commencing March 1, 2013) at the rates per annum and maturing on

the dates and in the amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$ _____ (representing the principal amount of the Bonds, less an Underwriter's discount of \$ _____, and [less net original issue discount] [plus net original issue premium] of \$ _____). The Bonds will be subject to redemption as set forth in the Indenture (defined below). The Bonds will be issued in book-entry form only.

The Bonds shall be issued and secured under the provisions of, and shall be payable and subject to redemption as provided in, an Indenture, dated as of _____ 1, 2012 (the "Indenture"), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), approved in a resolution adopted by the Board of Supervisors of the County (the "Board of Supervisors"), acting in its capacity as the legislative body of the District, on _____, 2012 (the "Resolution of Issuance"). The Bonds and interest thereon will be payable from a special tax (the "Special Tax") levied and collected on the taxable land within the District. Proceeds of the sale of the Bonds, together with certain other funds of the District, will be used in accordance with the Indenture and the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act"), to defease the District's outstanding Special Tax Bonds, Series 2005 (the "Refunded Bonds"), to fund a Reserve Fund for the Bonds, and to pay costs of issuance of the Bonds.

(b) At or prior to the acceptance hereof, the District has authorized the use of the Official Statement in connection with the public offering of the Bonds. The District has also consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement (defined below) relating to the Bonds in connection with the public offering of the Bonds. Authorized officers of the District have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12 (defined below), with the exception of certain final pricing and related information referred to in Rule 15c2-12.

(c) Subsequent to its receipt of a certificate from the District deeming the Preliminary Official Statement for the Bonds, dated _____, 2012 (which Preliminary Official Statement, together with the cover page and all appendices thereto, is herein collectively referred to as the "Preliminary Official Statement" and which, as amended with the prior approval of the Underwriter and executed by the District, will be referred to herein as the "Official Statement") final for purposes of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission (the "SEC"), the Underwriter has distributed electronic copies of the Preliminary Official Statement. The District hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute the final Official Statement dated the date hereof (including all information previously permitted to have been omitted by Rule 15c2-12 and any supplements and amendments thereto as have been approved by the District as evidenced by the execution and delivery of such document by an officer of the District (the "Official Statement"), the Indenture, the Continuing Disclosure Agreement of the District, dated as of _____ 1, 2012, between the District and The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the "Disclosure Agreement"), this Bond Purchase Agreement, the Escrow Agreement with regard to the Refunded Bonds (the "Escrow Agreement"), dated as of _____ 1, 2012, between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"), any other

documents or contracts to which County, acting on behalf of the District, or the District is a party, and all information contained therein, and all other documents, certificates and statements furnished by the District to the Underwriter in connection with the transactions contemplated by this Bond Purchase Agreement, in connection with the offer and sale of the Bonds by the Underwriter.

The Underwriter hereby agrees to deliver a copy of the Official Statement to a national repository on or before the Closing Date (as hereinafter defined), and to make available an electronic copy to each investor that purchases any of the Bonds prior to the "end of the underwriting period" (as such term is defined in Section 2 (h) below), and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, Rule G-32 of the Municipal Securities Rulemaking Board (the "MSRB") and Rule 15c2-12. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. As of the date hereof, the Underwriter has not notified the District of the need to modify or supplement the Preliminary Official Statement.

(d) At 8:00 A.M., Pacific Daylight Time, on _____, 2012, or at such earlier time or date as shall be agreed upon by the Underwriter and the District (such time and date being herein referred to as the "Closing Date"), the County, on behalf of the District, will deliver (i) through the facilities of The Depository Trust Company, New York, New York, the Bonds in definitive form (all Bonds being in book-entry form registered in the name of Cede & Co. and having the CUSIP numbers assigned to them printed thereon), duly executed by the officers of the District as provided in the Indenture, and (ii) to the Underwriter, at the offices of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel") in Los Angeles, California, or at such other place as shall be mutually agreed upon by the District and the Underwriter, the other documents herein mentioned; and the Underwriter shall accept such delivery and pay the purchase price of the Bonds in immediately available cleared funds (such delivery and payment being herein referred to as the "Closing"). Notwithstanding the foregoing, the Underwriter may, in its discretion, accept delivery of the Bonds in temporary form upon making arrangements with the District which are satisfactory to the Underwriter relating to the delivery of the Bonds in definitive form.

(e) The District acknowledges and agrees that: (i) the primary role of the Underwriter is to purchase securities for resale to investors in an arms-length commercial transaction between the District and the Underwriter and that the Underwriter has financial and other interests that differ from those of the District, (ii) the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the District or any other person or entity and has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated hereby and the discussions, undertakings and proceedings leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the District or the County on other matters), (iii) the only obligations the Underwriter has to the District with respect to the transaction contemplated hereby expressly are set forth in this Bond Purchase Agreement, except as otherwise provided by applicable rules and regulations of the SEC or the rules of the MSRB, and (iv) the District has consulted its own

legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in connection with the transaction contemplated herein. The District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under rule G-17 of the MSRB.

2. Representations, Warranties and Agreements of the District. The District represents, warrants and covenants to and agrees with the Underwriter that:

(a) The District is duly organized and is validly existing under the Act and laws of the State as a community facilities district, has full legal right, power, and authority (i) to execute, deliver and perform its obligations under, and to carry out all transactions contemplated by, the Indenture, the Disclosure Agreement, this Bond Purchase Agreement and the Escrow Agreement (collectively, the "District Documents"), (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Resolution of Issuance, this Bond Purchase Agreement and the Indenture as provided herein, and (iii) to carry out, give effect to and consummate the transactions contemplated by the District Documents and the Official Statement. The Board of Supervisors, in its capacity as the legislative body for the District, has duly formed the District, and adopted an ordinance and amendments thereto authorizing the levy of a special tax on the taxable property within the District (the "Special Tax Ordinance"). The District has caused to be recorded in the real property records of the County of Riverside a Notice of Special Tax Lien and amendments thereto (collectively, the "Notice of Special Tax Lien") (such ordinances and resolutions, as subsequently amended, and the Notice of Special Tax Lien being collectively referred to herein as the "Formation Documents") with respect to the District. Each of the Formation Documents remains in full force and effect as of the date hereof and has not been otherwise amended.

(b) The District has complied, and will at the Closing Date be in compliance, in all material respects with, the Formation Documents and the District Documents, and any immaterial compliance by the District, if any, will not impair the ability of the District to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the District will continue to comply with its covenants in the District Documents;

(c) The Board of Supervisors, in its capacity as the legislative body for the District, has duly and validly: (i) taken or caused to be taken, all proceedings necessary under the Act and the Constitution and laws of the State of California in order to form the District, to authorize the execution of the District Documents and the levy of a special tax (the "Special Tax") on the taxable property within the District pursuant to the Rate and Method of Apportionment of Special Tax (the "Rate and Method of Apportionment"), to cause the Special Tax to be secured by a continuing lien on each parcel of Taxable Property (as defined in the Rate and Method of Apportionment); (ii) authorized and approved the execution and delivery of the District Documents and the issuance and sale of the Bonds; and (iii) authorized and approved the performance by the District of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of said District Documents (including, without limitation, the collection of the Special Tax). The District has been validly formed, the Special Tax has been approved and its levy authorized, and (assuming due authorization, execution and delivery by other parties thereto, where

necessary) the District Documents will constitute the valid, legal and binding obligations of the District, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and to the application of equitable principles.

(d) To the best of the District's knowledge, neither the District nor the County, acting on behalf of the District, is in breach of or default under any applicable material law or administrative rule or regulation of the State of California (the "State"), or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or under any material loan agreement, note, resolution, bond indenture, contract, agreement or other instrument to which the District or the County, acting on behalf of the District, is a party or is otherwise subject or bound, a consequence of which could be to materially and adversely affect the performance by the District of its obligations under the Bonds, the Formation Documents or the District Documents, and compliance with the provisions of each thereof, will not conflict with or constitute a material breach of or default under any applicable law or administrative rule or regulation of the State, or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or a material breach of or default under any loan agreement, note, resolution, trust agreement, contract, agreement or other instrument to which the District or the County, acting on behalf of the District, as the case may be, is a party or is otherwise subject to or bound;

(e) Except for compliance with the blue sky or other states securities law filings, as to which the District makes no representations, all approvals, consents, authorizations, elections and orders of or filings or registrations with any State governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the District of its obligations hereunder, or under the Formation Documents or the District Documents, have been obtained and are in full force and effect;

(f) The Special Tax constituting the security for the Bonds (i) has been duly and lawfully authorized and may be levied under the Act and the Constitution and the applicable laws of the State of California, and (ii) such Special Tax, when levied in accordance with the Rate and Method of Apportionment, will constitute a valid and legally binding continuing lien on the properties on which it has been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against agencies in the State of California;

(g) The District has never been in default at any time, as to principal of or interest on any obligation which it has issued, which default may have an adverse effect on the ability of the District to consummate the transactions on its part under the District Documents, except as specifically disclosed in the Official Statement; and other than the Indenture and the Notice of Special Tax Lien, the District has not entered into any contract or arrangement of any kind which might give rise to any lien or encumbrance on the Special Taxes following issuance of the Bonds.

(h) Until the earlier of (i) the date which is twenty-five (25) days after the “end of the underwriting period” (as hereinafter defined), or (ii) the date on which all of the Bonds have been sold by the Underwriter, if any event shall occur of which the District is aware, as a result of which it may be necessary to supplement the Official Statement in order to make the statements in the Official Statement, in light of the circumstances existing at such time, not misleading, the District shall forthwith notify the Underwriter of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to the Official Statement necessary, in the Underwriter’s or District’s opinion, so that the statements therein as so supplemented will not be misleading in light of the circumstances existing at such time and the District shall promptly furnish to the Underwriter electronic copies of such supplement. As used herein, the term “end of the underwriting period” means the later of such time as (i) the District delivers the Bonds to the Underwriter, or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the “end of the underwriting period” shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the “end of the underwriting period,” and the Underwriter agrees to notify the District in writing of the date on which the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public;

(i) The Indenture creates a valid pledge of the Special Taxes and the moneys in the Special Tax Fund (other than the Administrative Expenses) established pursuant to the Indenture, including the investments thereof, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein;

(j) Except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body is pending or, to the best current, actual knowledge of the District, threatened against the District or the County, acting on behalf of the District, in which the District or the County has been served (i) which would materially adversely affect the ability of either the District to perform its obligations under the Formation Documents, the Bonds or the District Documents, or (ii) seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Formation Documents, the District Documents, or any action contemplated by any of said documents, or (iii) in any way contesting the completeness or accuracy of the Preliminary Official Statement or the powers or authority of the District with respect to the Bonds, the Formation Documents, the District Documents, or any action of the District contemplated by any of said documents; nor is there any action pending or, to the best knowledge of the District, threatened against the District or the County, acting in the capacity of the District, in which the District or the County has been served, which alleges that interest on the Bonds is not excludable from gross income for federal income tax purposes or is not exempt from California personal income taxation;

(k) The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order for the Underwriter to qualify the Bonds for offer and sale under the "Blue Sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, the District shall not be required to register as a dealer or a broker of securities or to consent to service of process in connection with any blue sky filing;

(l) Any certificate signed by any authorized official of the District and the County, acting on behalf of the District, authorized to do so shall be deemed a representation and warranty to the Underwriter as to the statements made therein;

(m) Except as otherwise described in the Official Statement, the District has not failed in any material respect to comply with any undertaking of the District under Rule 15c2-12 in the previous five years;

(n) The District will apply the proceeds of the Bonds in accordance with the Indenture and as described in the Official Statement;

(o) The total interest cost to maturity on the Bonds plus the principal amount of the Bonds is less than the total remaining interest cost to maturity on the Refunded Bonds plus the outstanding principal amount of the Refunded Bonds;

(p) The information contained in the Preliminary Official Statement and the Official Statement (other than information in "APPENDIX F - Book-Entry Only System" and the information concerning the Underwriter under the heading of "Underwriter," as to which no view is expressed) as of the date thereof did not, and on the Closing Date the Official Statement will not, contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(q) The Preliminary Official Statement heretofore delivered to the Underwriter was deemed final by the District as of its date, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The District hereby covenants and agrees that, within seven (7) business days from the date hereof, the District shall cause a final version of the Official Statement to be electronically delivered to the Underwriter, so that the Underwriter may comply with paragraph (b)(4) of Rule 15c2-12 and Rules G-12, G-15, G-32 and G-36 of the MSRB.

3. Conditions to the Obligations of the Underwriter. The obligations of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the District contained herein, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the District or the County, acting on behalf of the District, made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the District of its

obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the Formation Documents and the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds and with the transactions contemplated thereby and by this Bond Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate;

(b) Between the date hereof and the Closing Date, the market price or marketability of the Bonds at the initial offering prices set forth in the Official Statement shall not have been materially adversely affected, in the reasonable judgment of the Underwriter following consultation with the District (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

(1) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department or the Internal Revenue Service of the United States of America, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon the interest as would be received by the holders of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof (it being acknowledged by the parties hereto that of the date hereof no such legislation, ruling, regulation, press release or other form of notice which would result in such adverse impact on the market price or marketability of the Bonds exists);

(2) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America, or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, or of the Bonds, including any or all underwriting arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws, rules or regulations as amended and then in effect;

(3) any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District or the County, their property, income, securities (or interest thereon), or the validity or enforceability of the Special Tax;

(4) any event occurring, or information becoming known, which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or results in the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(5) the declaration of war or the escalation of, or engagement in, military hostilities by the United States or the occurrence of any other national or international emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(6) the declaration of a general banking moratorium by federal, State of New York or State of California authorities, or the general suspension of trading on any national securities exchange;

(7) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds or obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(8) any amendment is made to the Official Statement that in the Underwriter's reasonable judgment will materially adversely affect the marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds.

(c) On the Closing Date, the Underwriter shall have received counterpart originals or certified copies of the following documents, in each case reasonably satisfactory in form and substance to the Underwriter:

(1) the Formation Documents and the District Documents, together with a certificate dated as of the Closing Date of the Clerk of the Board of Supervisors to the effect that each Formation Document is a true, correct and complete copy of the one duly adopted by the Board of Supervisors;

(2) the Preliminary Official Statement and the Official Statement;

(3) an opinion of Bond Counsel, dated the Closing Date and addressed to the District, in the form attached to the Preliminary Official Statement as APPENDIX E, and an unqualified opinion of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such approving opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

(4) a supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that (i) this Bond Purchase Agreement has been duly authorized, executed and delivered by the District and, assuming such agreement constitutes a valid and binding obligation of the other parties thereto, constitutes the legally valid and binding agreement of the District enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law); (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended; (iii) the information contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE REFUNDING PLAN," "THE 2012 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS," "LEGAL MATTERS – Tax Exemption" and APPENDICES C, D and E thereof, insofar as it purports to summarize certain provisions of the Act, the Bonds and the Indenture and such counsel's opinion as to the exclusion from gross income for federal income tax purposes and exemption from State of California personal income taxes of interest on the Bonds, present a fair and accurate summary of such provisions; and (iv) the Special Taxes have been duly and validly authorized in accordance with the provisions of the Act and a lien to secure payment of the Special Taxes has been imposed on all non-exempt property in the District as and to the extent provided in Streets and Highways Code Section 3114.5; provided, however, enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law); and provided, further, we express no opinion as to whether the particular levy on any parcel was made in accordance with the provisions of the Rate and Method of Apportionment;

(5) a letter from Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel ("Disclosure Counsel"), to the Underwriter, to the effect that, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, no facts have come to the attention of the attorneys in the firm rendering legal services in connection with the issuance of the Bonds that have caused them to believe that the Official Statement as of its date contained, or as of the Closing Date contains, any untrue statement of a material fact, or as of its date omitted, or as of the Closing Date omits, to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that the firm expresses no view with respect to any information concerning The Depository Trust Company, or the book-entry system, or with respect to any financial, statistical, economic or demographic data or revenue or other forecasts, projections, numbers, estimates, tables, assumptions, appraisals, assessed valuations or assumptions or expressions of opinion contained in the Official Statement, or with respect to any of the appendices thereto);

(6) a defeasance opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, in a form satisfactory to the Escrow Agent and the Underwriter, with respect to the Refunded Bonds;

(7) a certificate, dated the Closing Date and signed by an authorized representative of the District, ratifying the use and distribution by the Underwriter of the

Preliminary Official Statement and the Official Statement in connection with the offering and sale of the Bonds; and certifying that (i) the representations and warranties of the District contained in Section 2 hereof are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best of his or her knowledge, no event has occurred since the date of the Official Statement affecting the matters contained therein which should be disclosed in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any material respect, and the Bonds, the Formation Documents and the District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the District has complied with all the material agreements and satisfied all the conditions on its part to be performed or satisfied under the Formation Documents, the District Documents and the Official Statement at or prior to the Closing Date;

(8) an opinion of the County Counsel, as counsel to the District and the County, acting on behalf of the District, dated the Closing Date and addressed to the Underwriter, to the effect that (i) the District is duly organized and validly existing under the Constitution and laws of the State as a community facilities district under the Act; (ii) the District has full legal right, power, and authority to execute and deliver the District Documents; (iii) the District Documents have been duly authorized, executed, and delivered by the District and, assuming due authorization and execution by any other applicable parties thereto, the District Documents constitute the valid and binding obligations of the District, enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, to the limitations on legal remedies against municipal corporations in the State of California, and to the application of equitable principles if equitable remedies are sought; (iv) the Board of Supervisors adopted the resolutions and ordinances forming the District, confirming the Special Taxes, approving the District Documents and authorizing the sale and issuance of the Bonds at meetings of the Board of Supervisors which were called, held and conducted pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and such resolutions and ordinances are now in full force and effect and have not been amended, modified or rescinded; (v) except as disclosed in the Official Statement, to the best of such counsel's current, actual knowledge, after due inquiry, there are no actions, suits, proceedings, inquiries, or investigations, at law or in equity, before or by any court, governmental agency, public board, or body, pending or threatened against the District or the County, acting on behalf of the District, for which the District or the County has been served, to restrain or enjoin the issuance of the Bonds, the collection or application of the Special Taxes, or the payment of principal of and interest on the Bonds, or in any way contesting the validity of the formation of the District, the Bonds, or the District Documents; (vi) the execution and delivery of the District Documents, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District or the County, acting on behalf of the District, a breach of or default under any agreement or other instrument to which either is a party or by which either is bound or any existing law, regulation, court order or consent decree to which either is subject that the County Counsel has, in the exercise of customary professional diligence, recognized as applicable to the District and the transactions contemplated by the District Documents and the Formation Documents, and with respect to such conflict, breach or default, would materially adversely affect the ability of the District to pay the principal or interest on the Bonds; and if any such

agreement or instrument to which the County acting on behalf of the District or the District is a party is governed by the laws of a jurisdiction other than California, the County Counsel has assumed that such agreement or instrument is governed by the laws of California and the County Counsel expresses no opinion as to the effect of the District's performance of its obligations under the District Documents and the Formation Documents on the District's compliance with its financial covenants in such other agreements or instruments, and (vii) except as disclosed in the Official Statement, the Special Taxes constituting the security for the Bonds have been duly and lawfully levied under and pursuant to the Act and constitute valid and legally binding liens on the properties on which they have been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipalities in the State of California;

(9) a certificate dated the Closing Date from Albert A. Webb Associates (the "Special Tax Consultant") addressed to District and the Underwriter to the effect that (i) the Special Tax if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment as of the Closing Date would generate at least 110% of the sum of the maximum annual debt service payable on the Bonds, plus the Administrative Expenses, based on such assumptions and qualifications as shall be acceptable to the Underwriter, and (ii) it has reviewed the Preliminary Official Statement and Official Statement, and the statements concerning the Rate and Method of Apportionment and all statistical, financial and other data set forth in the tables and described in the Official Statement which were derived from information supplied by the Special Tax Consultant for use in the Official Statement as of the date of the Official Statement and as of the Closing Date are true, correct and complete in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and no events or occurrences have been ascertained by the Special Tax Consultant or have come to its attention that would substantially change such information set forth in the Official Statement;

(10) a certificate of the District dated the Closing Date, in a form reasonably acceptable to Bond Counsel, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

(11) a certificate of the Trustee and an opinion of counsel to the Trustee dated the Closing Date and addressed to the District and the Underwriter to the effect that it has duly authorized the execution and delivery of the Indenture and the Continuing Disclosure Agreement and that the Indenture and the Continuing Disclosure Agreement are valid and binding obligations of the Trustee enforceable in accordance with their respective terms;

(12) a certificate of the Escrow Agent and an opinion of counsel to the Escrow Agent dated the Closing Date and addressed to the District and the Underwriter to the effect that it has duly authorized the execution and delivery of the Escrow Agreement and that the Escrow Agreement is a valid and binding obligation of the Escrow Agent enforceable in accordance with its terms; and

(13) such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the statements and information contained in the Preliminary Official Statement and the Official Statement, of the District's representations and warranties contained herein and the due performance or satisfaction by the District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the District in connection with the transactions contemplated hereby and by the Official Statement.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Bond Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the District shall be under any further obligation hereunder, except that the respective obligations of the District and the Underwriter set forth in Section 5 and Section 6 hereof shall continue in full force and effect.

4. Conditions of the District's Obligations. The District's obligations hereunder are subject to the Underwriter's performance of its obligations hereunder, and are also subject to the following conditions:

(a) As of the Closing Date, except as disclosed in the Official Statement or as may be waived by the District, no litigation shall be pending or, to the knowledge of the duly authorized officer of the District executing the certificate referred to in Section 3(c)(6) hereof, threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Formation Documents, the District Documents or the existence or powers of the District or the County; and

(b) As of the Closing Date, the District shall receive the opinions of Bond Counsel and Disclosure Counsel referred to in Section 3(c)(3) and (5) hereof.

5. Expenses. Whether or not the Bonds are delivered to the Underwriter as set forth herein:

(a) The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid (out of any legally available funds of the District) any expenses incident to the performance of the District's obligations hereunder, including, but not limited to, the cost of printing and delivering the Bonds to the Underwriter, the cost of preparation, posting, distribution and delivery of the Indenture, the Preliminary Official Statement, the Official Statement and all other agreements and documents contemplated hereby (and drafts of any thereof) as requested by the Underwriter; and any fees and disbursements of the Trustee for the Bonds then due, Bond Counsel, Disclosure Counsel, counsel to the District, and any accountants, engineers or any other experts or consultants the District or the County has retained in connection with the Bonds; and

(b) The District shall be under no obligation to pay, and the Underwriter shall pay, any fees of the California Debt and Investment Advisory Commission, the cost of

preparation of any "blue sky" or legal investment memoranda and this Bond Purchase Agreement; expenses to qualify the Bonds for sale under any "blue sky" or other state securities laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in paragraph (a) of this section), including Underwriter's counsel and any advertising expenses.

6. Notices. Any notice or other communication to be given to the District under this Bond Purchase Agreement may be given by delivering the same in writing to the District at the address set forth above; and any notice or other communication to be given to the Underwriter under this Bond Purchase Agreement may be given by delivering the same in writing to E. J. De La Rosa & Co., Inc., 10866 Wilshire Blvd., Suite 1650, Los Angeles, CA 90024, attention: Mr. Raul Amezcua.

7. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the District and the Underwriter (including their successors or assigns), and no other person shall acquire or have any right hereunder or by virtue hereof.

8. Survival of Representations and Warranties. The representations and warranties of the District set forth in or made pursuant to this Bond Purchase Agreement and any certificates delivered hereunder shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Bond Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the District and regardless of delivery of and payment for the Bonds.

9. Effective. This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District and shall be valid and enforceable as of the time of such acceptance.

10. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds for the District.

11. Governing Law. This Bond Purchase Agreement shall be governed by the laws of the State of California.

12. Counterparts. This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

Very truly yours,

E. J. DE LA ROSA & CO., INC.

By: _____
Title: _____

ACCEPTED:

**COMMUNITY FACILITIES DISTRICT NO. 04-2
(LAKE HILLS CREST) OF THE COUNTY OF
RIVERSIDE**

By: _____
Deputy County Executive Officer
Time of Execution: _____

EXHIBIT A
MATURITY SCHEDULE

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
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