

NEW ISSUE- Book Entry

**RATINGS+: FSA INSURED
S & P “AAA”
MOODY’S “Aaa”
S&P UNDERLYING RATING “AA”
MOODY’S UNDERLYING RATING “Aa1”**

Subject to compliance by the District with certain covenants, in the opinion of Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. See “TAX EXEMPTION” herein for a more complete discussion. Interest on the Bonds is not exempt from present State of Illinois income taxes.

**\$73,000,000
GENERAL OBLIGATION BONDS, SERIES 2007
McHENRY COUNTY CONSERVATION DISTRICT
McHenry County, Illinois**

Dated: As of Date of Issue

Due: February 1, As Shown on the Inside Cover Page

The General Obligation Bonds, Series 2007 (the “Bonds”), of the McHenry County Conservation District, McHenry County, Illinois (the “District”), are issuable as fully registered Bonds under the global book-entry system operated by The Depository Trust Company, New York, New York (“DTC”). Individual purchases will be made in book-entry system form only. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. The Bonds are issued in fully registered form in denominations which are multiples of \$5,000, and will bear interest payable on February 1 and August 1 of each year, with February 1, 2008 as the first interest payment date. The Bank of New York Trust Company, N.A., Chicago, Illinois will act as bond registrar and paying agent for the Bonds. Details of payment of the Bonds are described herein. Interest is calculated based on a 360-day year consisting of twelve 30-day months.

Proceeds of the Bonds will be used to (i) fund a land acquisition and improvement program for open space and watershed protection, wildlife habitat and plant restoration and recreational purposes, (ii) pay capitalized interest through February 1, 2008 and (iii) pay certain costs associated with the issuance of the Bonds.

The Bonds, in the opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, are valid and legally binding obligations of the District, and are payable both as to principal and interest from ad valorem taxes levied against all taxable property in the District without limitation as to rate or amount, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors’ rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

The scheduled payments of the principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. (See “BOND INSURANCE” and Appendix C herein.)



The Bonds are subject to redemption prior to maturity in the manner, at the times and at the redemption prices described herein under the “THE BONDS-Optional Redemption”.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without any notice, and to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Chapman and Cutler LLP will also pass on certain matters for the Underwriters. Certain legal matters will be passed upon for the District by its counsel, Meltzer, Purtill & Stelle, Schaumburg, Illinois. Delivery of the Bonds through the facilities of DTC will be on or about July 12, 2007.

RAYMOND JAMES & ASSOCIATES, INC.



PMA SECURITIES, INC.

The date of this Official Statement is June 21, 2007

+See “BOND RATINGS” herein.

MATURITY SCHEDULE, INTEREST RATES AND YIELDS

\$73,000,000

General Obligation Bonds, Series 2007

<u>Maturity</u> <u>(February 1)</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>
2012	\$ 5,000	4.000	4.150
***	***	***	***
2022	10,730,000	5.000	4.480
2023	11,270,000	5.000	4.510
2024	11,830,000	5.000	4.530
2025	12,425,000	5.000	4.550
2026	13,045,000	5.000	4.570
2027	13,695,000	5.125	4.540

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended by the McHenry County Conservation District, McHenry County, Illinois (the "District"), from time to time (collectively, the "Official Statement"), may be treated as an Official Statement with respect to the Bonds described herein that is deemed final by the District as of the date hereof (or of any such supplement or amendment).

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as statements of the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Unless otherwise indicated, the District is the source of all tables and statistical and financial information contained in this Official Statement. The information set forth herein relating to governmental bodies other than the District has been obtained from such governmental bodies or from other sources believed to be reliable. The information and opinions expressed 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 District since the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its position in this Official Statement. Where statutes, ordinances, resolutions, reports or other documents are referred to herein, reference should be made to such statutes, resolutions, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange and neither the Securities and Exchange Commission nor any other Federal, State, Municipal or other governmental entity, other than the District, shall have passed upon the accuracy or adequacy of this Official Statement.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit C "Specimen of Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

**McHENRY COUNTY CONSERVATION DISTRICT
McHENRY COUNTY, ILLINOIS**

**18410 US HIGHWAY 14
WOODSTOCK, ILLINOIS 60098
815-338-6223**

* * * * *

Board of Trustees

Joe Gottemoller, President
Bonnie Leahy, Vice President
Kimberly Hankins, Secretary
John Green, Treasurer
Craig S. Krandel
David LaGue
Nancy Williamson

Administration

Executive Director

Elizabeth S. Kessler, MBA, CPRP

**Director of
Finance**

Andy Dylak

**Director of
Operations**

John Kremer

* * * * *

Paying Agent/Bond Registrar

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TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION.....	1
THE BONDS	1
General Description.....	1
Registration and Exchange.....	1
Authority and Purpose.....	2
Security and Payment.....	2
Optional Redemption	3
Redemption Procedures.....	3
THE PROJECT	3
Open Space and Watershed Protection	3
Wildlife Habitat Preservation.....	4
Recreational Improvements.....	4
SOURCES AND USES	4
BOND INSURANCE.....	4
Bond Insurance Policy	4
Financial Security Assurance Inc.	5
BOOK-ENTRY SYSTEM.....	5
REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES	8
Tax Levy and Collection Procedure	8
Exemptions.....	8
PROPERTY TAX EXTENSION LIMITATION LAW	9
TRUTH IN TAXATION LAW	10
THE DISTRICT	10
General Description.....	10
Preservation Activities	10
Education Activities	11
Recreational Activities	11
Management.....	11
Land Acquisition Activities	12
Administration.....	12
Employees	12
McHENRY COUNTY SOCIO-ECONOMIC CHARACTERISTICS	12
General Information	12
Population Trend.....	13
Education.....	14
Income.....	14
Housing	15
Agriculture	15
Largest Taxpayers	16
Commerce and Industry	17
State Retail Sales Receipts	18
Occupational Categories	19
Largest Employers in the Area.....	19
Unemployment.....	20
Historical Unemployment Statistics	20
CERTAIN FINANCIAL INFORMATION REGARDING McHENRY COUNTY CONSERVATION DISTRICT	20
Trend of Equalized Assessed Valuation.....	20
Tax Rates.....	20
Representative Tax Rates for Property within the District.....	21
Tax Extensions and Collections	21
Summary of Outstanding Bonded Debt	21
Debt Repayment Schedule	22
Overlapping Bonded Debt.....	23
Debt Statement	23
Debt Ratios.....	23
General Fund - Balance Sheet.....	24
General Fund – Statement of Revenues and Expenditures	25
Budget	26

SHORT-TERM FINANCING RECORD	26
FUTURE FINANCING	26
DEFAULT RECORD	26
RETIREMENT FUND COMMITMENTS	26
TAX EXEMPTION	26
LITIGATION	29
BOND RATINGS	29
CONTINUING DISCLOSURE	29
THE UNDERTAKING	30
Annual Financial Information Disclosure	30
Material Events Disclosure	30
Consequences of Failure of the District to Provide Information	31
Amendment; Waiver	31
Termination of Undertaking	31
Additional Information	32
Dissemination Agent	32
CERTAIN LEGAL MATTERS	32
UNDERWRITING	32
THE OFFICIAL STATEMENT	33
Accuracy and Completeness of the Official Statement	33

Appendices:

- A. Form of Legal Opinion of Bond Counsel
- B. Audited Financial Statement for the Fiscal Year Ended March 31, 2006
- C. Form of Municipal Bond Insurance Policy

\$73,000,000
McHenry County Conservation District
McHenry County, Illinois
GENERAL OBLIGATION BONDS, SERIES 2007

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the McHenry County Conservation District, McHenry County, Illinois (the “District”), in connection with the offering and sale of its General Obligation Bonds, Series 2007 (the “Bonds”). This Official Statement includes the cover page, the reverse thereof and the Appendices. Certain factors that may affect an investment decision concerning the Bonds are described throughout this Official Statement. Persons considering a purchase of the Bonds should read this Official Statement in its entirety.

THE BONDS

General Description

The Bonds will be issued in fully registered form, without coupons, in denominations of \$5,000 each or authorized integral multiples thereof under a book-entry only system operated by The Depository Trust Company, New York, New York (“DTC”). Principal of and interest on the Bonds will be payable as described under the caption “BOOK-ENTRY SYSTEM” by The Bank of New York Trust Company, N.A., Chicago, Illinois, as paying agent and bond registrar (the “Bond Registrar”).

The Bonds will be dated as of the date of delivery and will mature as shown on the inside cover page of this Official Statement. Interest will be payable on each February 1 and August 1, beginning February 1, 2008.

The Bonds will bear interest from their dated date, or from the most recent interest payment date to which interest has been paid or provided for, computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of the Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Bond Registrar in Chicago, Illinois. Interest on each Bond will be paid by check or draft of the Bond Registrar payable upon presentation in lawful money of the United States of America to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date.

The Bonds are subject to redemption prior to maturity as discussed under “Optional Redemption” herein.

Registration and Exchange

The Bonds may be transferred, registered and assigned only on the registration books (the “Bond Register”) of the Bond Registrar, and such registration shall be at the expense of the District; provided, however, that the District may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption.

Upon surrender for transfer of any Bond at the principal corporate trust office maintained for the purpose by the Bond Registrar, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Bond Registrar and duly executed by, the registered owner or his attorney duly authorized in writing, the District shall execute and the Bond Registrar shall authenticate, date and deliver in the name of the transferee or transferees a new fully registered Bond or Bonds of the same maturity of authorized denominations for a like aggregate principal amount. Any fully registered Bond or Bonds may be exchanged at said office of the Bond Registrar for a like aggregate principal amount of Bond or Bonds of the same maturity of other authorized denominations. The execution by the District of any fully registered Bond shall constitute full and due authorization of such Bond and the Bond Registrar shall thereby be authorized to authenticate, date and deliver such Bond, provided, however, the principal amount of outstanding Bonds of each maturity authenticated by the Bond Registrar shall not exceed the authorized principal amount of Bonds for such maturity less previous retirements.

The Bond Registrar shall not be required to transfer or exchange any Bond during the period beginning at the close of business on the 15th day of the month next preceding any interest payment date on such Bond and ending at the opening of business on such interest payment date, nor to transfer or exchange any Bond after notice calling such Bond for redemption has been mailed, nor during a period of fifteen (15) days next preceding mailing of a notice of redemption of any Bonds.

Authority and Purpose

The Bonds are issued under the authority of the Conservation District Act and the Local Government Debt Reform Act of the State of Illinois, and all laws amendatory thereof and supplementary thereto, and an ordinance adopted by the Board of Trustees of the District on June 21, 2007 (the "Bond Ordinance"). Proceeds of the Bonds will be used to (i) acquire and improve open land in order to protect open space and natural areas; protect watersheds to improve the water quality of rivers, lakes and streams and control flooding; preserve and restore wildlife habitat, including sensitive at-risk ecological systems such as wetlands; and provide for recreational activities, such as hiking, fishing, walking and experiencing nature (the "Project") (see "THE PROJECT" herein), (ii) pay capitalized interest through February 1, 2008 and (iii) pay certain costs associated with the issuance of the Bonds. The issuance of the Bonds to pay for the Project represents the total amount approved by the voters of the District at the consolidated election held on April 17, 2007. At such election 17,541 votes were cast in favor of the issuance of the Bonds and 13,390 votes were cast in opposition.

Security and Payment

The obligation to make payments of principal of and interest on the Bonds is a direct general obligation of the District payable from the ad valorem taxes levied against all of the taxable property in the District without limitation as to rate or amount. The Bond Ordinance will be filed with the County Clerk of McHenry County, Illinois, and will serve as authorization to said County Clerk to extend and collect the property taxes set forth in the Bond Ordinance for the Bonds.

The form of the opinion of Bond Counsel is set forth in Appendix A.

Optional Redemption

The Bonds due on or after February 1, 2022, are subject to redemption prior to maturity, at the option of the District, in whole or in part in such principal amounts and from such maturities as determined by the District, in integral multiples of \$5,000, selected by lot by the Bond Registrar, on February 1, 2017 and on any date thereafter, at a redemption price of par plus accrued interest to the redemption date.

Redemption Procedures

Unless waived by any holder of Bonds to be redeemed, notice of the call for any redemption shall be given by the Bond Registrar on behalf of the District by mailing the redemption notices by first-class mail at least (30) days and not more than sixty (60) days prior to the date fixed for redemption to the registered owner of the Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

All notices of redemption shall state (1) the redemption date, (2) the redemption price, (3) if less than all the outstanding Bonds of a particular maturity are to be redeemed, the identification (and, in the case of partial redemption of Bonds within such maturity, the respective principal amounts) of the Bonds to be redeemed, (4) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and interest thereon shall cease to accrue from and after said date, and (5) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office maintained for the purpose by the Bond Registrar, and (6) such other information then required by custom, practice or industry standard.

Moneys sufficient to pay the redemption price of the Bonds to be redeemed shall be deposited by the District with the Bond Registrar prior to any redemption date. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the District shall default in payment of redemption price), such Bonds or portion of Bonds shall cease to bear or accrue interest. Neither the failure to mail such redemption notices, nor any defect in any notice so mailed, to any particular owner of a Bond, shall affect the sufficiency of such notice with respect to other registered owners. Notice having been properly given, failure of a registered owner of a Bond to receive such notice shall not be deemed to invalidate, limit or delay the effect of the notice or redemption action described in the notice.

THE PROJECT

Components of the Project are as follows:

Open Space and Watershed Protection

The District plans to purchase approximately 4,500 acres of open space throughout McHenry County protecting remaining high quality natural areas, significant wetlands, and endangered and threatened species habitats and linking existing sites.

Wildlife Habitat Preservation

The District will use proceeds of the Bonds to preserve and restore essential habitat for native plants and animals. Currently the District manages nearly 6,500 acres of rare, high-quality wetlands, savannas and prairies. Conservation sites are home to hundreds of species of native plants and animals as well as federal and state threatened species such as the federally endangered prairie bush clover, state endangered short-eared owl and migrating whooping cranes.

Recreational Improvements

Trails and additional site openings will be implemented with proceeds of the Bonds. The District has several projects in various stages of planning that will enhance recreational opportunities close to home. Hiking and biking trails are popular recreational outlets that also serve to reduce road congestion by promoting safe routes to schools, work and parks. Site improvements will augment public access to many District sites which possess untapped passive recreational opportunities.

SOURCES AND USES

The sources and uses of funds with respect to the Bonds are estimated as follows:

Estimated Sources of Funds

Par Amount of the Bonds.....	\$73,000,000.00
Net Original Issue Premium.....	<u>2,754,405.80</u>
Total Sources	<u>\$75,754,405.80</u>

Estimated Uses of Funds

Deposit to the Project Fund.....	\$73,058,000.00
Deposit to the Capitalized Interest Fund.....	2,027,074.11
Costs of Issuance*	<u>669,331.69</u>
Total Uses.....	<u>\$75,754,405.80</u>

*Includes Underwriters' discount, Bond Counsel fee, insurance premium, Bond Registrar's fee and other costs of issuance.

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc., New York, New York (the "District" or "Financial Security") for use in this Official Statement. No representation is made by the District or the Underwriters as to accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in such information or in the condition of Financial Security subsequent to the date hereof. Reference is made to Appendix C for a Specimen Municipal Bond Insurance Policy.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of

principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix C to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,601,527,000 and its total net unearned premium reserve was approximately \$2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security's consolidated shareholder's equity was approximately \$2,753,483,000 and its total net unearned premium reserve was approximately \$1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the District the information presented under this caption for inclusion in the Official Statement.

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other bond transactions in deposited bonds, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of bond 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, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC 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. bonds brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment 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 Bond 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 issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 detailed information from the District or the Bond Registrar, 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 bonds 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, the Bond Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 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 District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

The District will have no responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Participant.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

Tax Levy and Collection Procedure

Local Assessment Officers determine the assessed valuation of taxable real property and railroad property not held or used for railroad operations. The Illinois Department of Revenue (the "Department") assesses certain other types of taxable property, including railroad property held or used for railroad operations. Local Assessment Officers' valuation determinations are subject to review at the county level and then, in general, to equalization by the Department. Such equalization is achieved by applying to each county's assessments a multiplier determined by the Department. The purpose of equalization is to provide a common basis of assessments among counties by adjusting assessments toward the statutory standard of 33-1/3% of fair cash value. Farmland is assessed according to a statutory formula which takes into account factors such as productivity and crop mix. Taxes are extended against the assessed values after equalization.

Property tax levies of each taxing body are filed in the office of the county clerk of each county in which territory of that taxing body is located. The county clerk computes the rates and amount of taxes applicable to taxable property subject to the tax levies of each taxing body and determines the dollar amount of taxes attributable to each respective parcel of taxable property. The county clerk then supplies to the appropriate collecting officials within the county the information needed to bill the taxes attributable to the various parcels therein. After the taxes have been collected, the collecting officials distribute to the various taxing bodies their respective shares of the taxes collected. Taxes levied in one calendar year are due and payable in two installments during the next calendar year. Taxes that are not paid when due, or that are not paid by mail and postmarked on or before the due date, are subject to a penalty of 1-1/2% per month until paid. Unpaid property taxes, together with penalties, interest and costs constitute a lien against the property subject to the tax.

Exemptions

An annual General Homestead Exemption provides that the Equalized Assessed Valuation ("EAV") of certain property owned and used for residential purposes ("Residential Property") may be reduced by the amount of any increase over the 1977 EAV, up to a maximum reduction of \$3,500 for taxable years prior to tax year 2004 in counties with less than 3,000,000 inhabitants, and a maximum reduction of \$5,000 for taxable year 2004 and thereafter (the "General Homestead Exemption").

The Homestead Improvement Exemption applies to Residential Properties that have been improved or rebuilt in the 2 years following a catastrophic event. The exemption is limited to \$45,000 through December 31, 2003, and \$75,000 per year beginning January 1, 2004 and thereafter, to the extent the assessed value is attributable solely to such improvements or rebuilding.

Additional exemptions exist for senior citizens. The Senior Citizens Homestead Exemption operates annually to reduce the EAV on a senior citizen's home for taxable years prior to 2004 by \$2,000 in counties with less than 3,000,000 inhabitants. For taxable years 2004 through 2005, the maximum reduction is \$3,000 in all counties. For taxable years 2006 and thereafter, the maximum reduction is \$3,500 in all counties. Furthermore, beginning with assessment year 2003, for taxes payable in 2004, property that is first occupied as a residence after January 1 of any assessment year by a person who is eligible for the Senior Citizens Homestead Exemption must be granted a pro-rata

exemption for the assessment year based on the number of days during the assessment year that the property is occupied as a residence by a person eligible for the exemption.

A Senior Citizens Assessment Freeze Homestead Exemption freezes property tax assessments for homeowners who are 65 and older and have annual incomes of \$35,000 or less prior to taxable year 1999, \$40,000 or less in taxable years 1999 through 2003, \$45,000 or less in taxable years 2004 and 2005, and \$50,000 or less in taxable year 2006 and thereafter. In general, the Exemption limits the annual real property tax bill of such property by granting to qualifying senior citizens an exemption as to a portion of the valuation of their property. Through taxable year 2005, the exempt amount is the difference between (i) the current EAV of their residence and (ii) the base amount, which is the EAV of a senior citizen's residence for the year prior to the year in which he or she first qualifies and applies for the Exemption (plus the EAV of improvements since such year). For taxable year 2006 and thereafter, the amount of the exemption phases out as the amount of household income increases. The amount of the exemption is calculated by using the same formula as above, and then multiplying that answer by a ratio that varies according to household income.

Another exemption available to disabled veterans operates annually to exempt up to \$70,000 of the Assessed Valuation of property owned and used exclusively by such veterans or their spouses for residential purposes. Lastly, certain property is exempt from taxation on the basis of ownership and/or use, such as public parks, not-for-profit schools and public schools, churches, and not-for-profit hospitals and public hospitals.

PROPERTY TAX EXTENSION LIMITATION LAW

The Property Tax Extension Limitation Law, as amended (the "Limitation Law"), limits the annual growth in the amount of property taxes to be extended for certain Illinois non-home-rule units, including the District. In general, the annual growth permitted under the Limitation Law is the lesser of 5% or the percentage increase in the Consumer Price Index during the calendar year preceding the levy year. Taxes can also be increased due to new construction, referendum approval of tax rate increases, mergers and consolidations.

The effect of the Limitation Law is to limit the amount of property taxes that can be extended for a taxing body. In addition, general obligation bonds, notes and installment contracts payable from ad valorem taxes unlimited as to rate and amount cannot be issued by the affected taxing bodies unless they are approved by referendum (such as the Bonds), are alternate bonds or are for certain refunding purposes.

The District has the authority to levy taxes for many different purposes. See "CERTAIN FINANCIAL INFORMATION REGARDING McHENRY COUNTY CONSERVATION DISTRICT – Tax Rates" herein. The ceiling at any particular time on the rate at which these taxes may be extended for the District is either (i) unlimited (as provided by statute), (ii) initially set by statute but permitted to be increased by referendum, (iii) capped by statute, or (iv) limited to the rate approved by referendum. Public Act 94-0976, effective June 30, 2006, provides that the only ceiling on a particular tax rate is the ceiling set by statute above which the rate is not permitted to be further increased by referendum or otherwise. Therefore, taxing districts (such as the District) will have increased flexibility to levy taxes for the purposes for which they most need the money. The total aggregate tax rate for the various purposes subject to the Limitation Law, however, will not be allowed to exceed the District's limiting rate computed in accordance with the provisions of the Limitation Law.

Local governments, including the District, can issue limited tax bonds in lieu of general obligation bonds that have otherwise been authorized by applicable law.

TRUTH IN TAXATION LAW

Legislation known as the Truth in Taxation Law (the “Law”) limits the aggregate amount of certain taxes which can be levied by, and extended for, a taxing district to 105% of the amount of taxes extended in the preceding year unless specified notice, hearing and certification requirements are met by the taxing body. The express purpose of the Law is to require published disclosure of, and hearing upon, an intention to adopt a levy in excess of the specified levels.

The provisions of the Law do not apply to levies made to pay principal of and interest on the Bonds. The District covenanted in the Bond Ordinance that it will not take any action which would adversely affect the levy, extension, collection, and application of the taxes levied by the District for payment of principal of and interest on the Bonds. The District also covenanted that it will comply with all present and future laws concerning the levy, extension, and collection of such taxes levied by the District.

THE DISTRICT

General Description

Established by county-wide referendum in 1971, the District is a separate legal entity, the boundaries of which are coterminous with McHenry County (the “County”), encompassing an area of 610 square miles. The District is governed by a seven member Board of Trustees who are appointed by the chairperson of the McHenry County Board, with the consent of the McHenry County Board, and serve five-year staggered terms.

The District is dedicated to acquiring and maintaining land as open space for preservation, education and recreation. In furtherance of these goals, the District owns or manages 20,557 acres, including 16 Illinois Nature Preserves and 37 District owned or managed sites (18 of which are open to the public). Sites range in size from the 3,172 acre Glacial Park to the 20 acre Barber Fen. In 2006, approximately 1,143,001 persons visited District sites. The District maintains the 26 mile Prairie Trail for bicycling and hiking which runs from Kane County to the Wisconsin state line and the five mile Hebron Trail for bicycling and hiking. The District also owns another 15 miles of greenway corridor in the southwest portion of the County, a portion of which will be developed as a trail. Other trails include 43 hiking/walking interpretive trails, horseback riding at four sites and ten miles of snowmobiling trails. Most hiking trails are available for cross-country skiing. Numerous additional recreational and environmental education activities are conducted by the District including camping (on seven sites), picnicking, fishing, canoeing, ice skating, sledding and children’s programs and day camps.

Preservation Activities

One of the primary purposes of the District is to preserve open space. Remnant natural areas prairies, wetlands and forests receive the highest priority in protecting the County’s natural heritage. Each site is inventoried to ensure that development plans complement the protection of any native, rare or endangered species.

In an effort to restore land to its healthy, native condition, District staff and volunteers cut brush and remove non-native species. Seed is collected from areas where native prairie plants have grown undisturbed by human activities. These seeds are then propagated in the District nursery for

reintroduction onto District sites. Prescribed and controlled fires in the spring or fall help encourage new growth in these native plants, thus ensuring their survival. District staff also assists in managing other public and private open space properties throughout the County.

Education Activities

The educational purpose of the District is to promote the heritage of the County's land helping to ensure its protection and enrichment for the future. The District presents a myriad of public programs and provides leadership training and field trip assistance to area schools. The Coral Woods Spring Program shows how tree sap is collected and boiled to produce maple syrup. The Autumn Trail of History attracts thousands of visitors to the re-enactment of a pre-settlement "rendezvous". A quarterly newsletter, Landscapes, is available free to the public upon request.

Many special workshops and programs are held at Glacial Park's Wiedrich Barn and the Prairieview Education Center. Other sites offer programs for adults and children of all ages, including day camps, canoeing, moonlight night hikes, bird watching and wildflower walks. At the District's Wildlife Resource Center, the District conducts research and provides rehabilitation services for endangered, threatened and watch-listed species.

Recreational Activities

Recreational opportunities are plentiful at District sites. Cross country ski programs are held throughout the winter months. The Glacial Park Ski Patrol provides for the safety of skiers on weekends during the ski season. Families are encouraged to picnic and camp at many of the District sites. Nearly 20 miles of winding creek offer up to six hours of floating time by canoe. Fishing is available on the Nippersink Creek, the Fox River, the pond at Rush Creek, the Piscasaw River at Beck's Woods or Lake Atwood at The Hollows.

Management

The Board of Trustees establishes the goals and policies of the District, adopts the budget (subject to the approval of the McHenry County Board) and hires the Executive Director under contract. The Executive Director is responsible for the day-to-day operations of the District and hires all employees with the approval of the Board. The District's employees serve "at will" and report to the Executive Director. Management of the District is divided among additional management personnel including a Director of Operations, Director of Finance, Education Services Manager, Land and Facilities Manager, Natural Resources Manager, Planning and Development Manager, Police Chief, Wildlife Resources Center Manager, Land Preservation Manager and Communications Manager.

Land Acquisition Activities

The District acquires its land holdings through a combination of annual tax revenues and bond proceeds. The District has established land acquisition goals which it uses to review potential purchases. These goals include:

- ecological preservation and restoration;
- connection and consolidation to existing holdings to increase public accessibility and usefulness;
- water resource management potential;
- recreational potential;
- multiple use potential; and
- potential to increase landscape diversity to enhance livability in the County.

Administration

The District's Executive Director is Elizabeth S. Kessler, MBA, CPRP who has been Director since 2006. The Director of Finance is Andy Dylak who has been with the District since 2004.

Employees

The District currently has 80 employees, of whom 65 are full time and 15 are part-time. Of the total number, 16 employees are represented by the International Union of Operating Engineers, Local 150, Public Employee Division and 8 employees are represented by the Fraternal Order of Police. The contracts of the unions expire on March 31, 2008 and March 31, 2010, respectively. The District considers its relations with the unions to be stable.

MCHENRY COUNTY SOCIO-ECONOMIC CHARACTERISTICS

General Information

The County is the fastest growing county in the State of Illinois with a 2000 Census population of 260,077 representing a 41.9% increase since the 1990 Census. A 2006 estimate of population for the County is 312,373. Located 25 miles northwest of the City of Chicago, it is considered one of the "Collar Counties" of the Chicago Metropolitan area. The Northeastern Illinois Planning Commission has projected the population of the County to grow to 347,159 by the year 2020. The County encompasses 610 square miles and is organized into 17 townships. The County seat is the City of Woodstock.

Income figures show that the County has maintained a top position among other counties in the State. Per capita personal income in the County was reported at \$26,476 in 2000. The most recent estimate shows per capita personal income at \$35,265 in 2005.

**Per Capita Personal Income
For the Ten Highest Income Counties in the State**

<u>Rank</u>	<u>County</u>	<u>2005</u>
1	Lake County	\$48,906
2	DuPage County	48,472
3	Cook County	39,423
4	McHenry County	35,265
5	Peoria County	34,486
6	Jo Daviess County	34,115
7	Monroe County	34,042
8	Sangamon County	33,904
9	McLean County	32,905
10	Macon County	32,808

Source: Regional Economic Information System, Bureau of Economic Analysis

Population Trend

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>% Change 1990-2000</u>
McHenry County	147,897	183,241	260,077	41.93%
State of Illinois	11,426,518	11,430,602	12,419,293	8.65%

Source: 1980, 1990 and 2000 Census of Population

Education

The educational background of District area residents living in the County compared to the State of Illinois is illustrated in the following table.

Educational Levels for Persons 25 years of Age and Older

<u>Education Level</u>	<u>County of McHenry</u>	<u>State of Illinois</u>
Less than 9th Grade	3.6%	7.5%
9th to 12th grade, no diploma	7.1	11.1
High school graduate	28.4	27.7
Some college, no degree	26.0	21.6
Associate degree	7.1	6.1
Bachelor's degree	19.6	16.5
Graduate or professional degree	8.2	9.5
Percent high school graduate or higher.....	89.2	81.4
Percent bachelor's degree or higher.....	<u>27.7</u>	<u>26.1</u>
	<u>100.0%</u>	<u>100.0%</u>

Source: 2000 Census, U.S. Department of Commerce, Census Bureau

Income

The following table sets forth the distribution of household income derived from the 2000 Census for McHenry County and the State.

<u>Household Income</u>	<u>McHenry County</u>	<u>State of Illinois</u>
Under \$10,000.....	2.8%	8.3%
\$10,000 to \$14,999	2.9	5.5
\$15,000 to \$24,999	6.3	11.3
\$25,000 to \$34,999	8.6	11.9
\$35,000 to \$49,999	13.9	16.2
\$50,000 to \$74,999	25.4	20.7
\$75,000 to \$99,999	18.3	11.6
\$100,000 to \$149,999	14.5	9.0
\$150,000 to \$199,999	4.1	2.6
\$200,000 or more	<u>3.2</u>	<u>2.8</u>
	<u>100.0%</u>	<u>100.0%</u>
Median household income	\$64,826	\$46,590

Source: 2000 Census, U.S. Department of Commerce, Census Bureau

Housing

The 2000 Census reported that 83.2% of the 89,403 occupied housing units in the County were owner occupied. The median home value of owner occupied homes in the County was \$168,100. Selected home value data relative to values of owner-occupied housing units in the County compared with the State of Illinois are as follows:

Value of Specific Owner-Occupied Units	Number of Units in McHenry County	Percent (%)	Number of Units in the State of Illinois	Percent (%)
Less than \$50,000	315	0.5	230,049	9.3
\$50,000 to \$99,999	4,094	6.0	651,605	26.4
\$100,000 to \$149,000	21,290	31.4	583,409	23.6
\$150,000 to \$199,999	19,836	29.2	429,311	17.4
\$200,000 to \$299,999	16,016	23.6	344,651	14.0
\$300,000 to \$499,999	5,263	7.8	163,254	6.6
\$500,000 to \$999,999	875	1.3	55,673	2.3
\$1,000,000 or more	200	0.3	12,386	0.5
		<u>100.0</u>		<u>100.0</u>
Median value.....	\$168,100		\$130,800	

Source: 2000 Census, U.S. Department of Commerce, Census Bureau

Agriculture

The table below sets forth statistics from the Census of Agriculture for the County.

McHenry County Census of Agriculture			
	<u>1997</u>	<u>2002</u>	<u>Percent Change</u>
Land in Farms	251,041 Acres	233,458 Acres	(7.00)%
Average Size of Farms.....	243 Acres	268 Acres	10.00
Number of Farms	1,031	870	(16.00)
Market Value of Production .	\$112,897,000	\$91,616,000	(19.00)
Market Value of Production per farm	\$109,503	\$105,306	(4.00)

Largest Taxpayers

<u>Taxpayer</u>	<u>2006 Assessed Valuation</u>
Centro Saturn	\$10,220,486
Inland Crystal Point, LLC	10,081,660
Rubloof Algonquin Portfolio	8,696,612
Menard Inc.	8,273,224
HD Develop of MD Inc.	6,779,175
Cobalt Ind REIT	6,730,624
Chicago Title Co.	6,616,889
Meijer Stores Ltd Partnership	6,509,183
Terra Cotta Realty Co.	6,467,856
Sunrise IV Crystal Lake LLC	6,416,847
Total	<u>\$76,792,556</u>

The above taxpayers represent 0.82% of the District's \$9,387,169,709 2006 equalized assessed valuation ("EAV"). Every reasonable effort has been made to determine and report the largest taxpayers and to include all taxable property of those taxpayers listed. Many of the taxpayers listed, however, may contain multiple parcels, and it is possible that some parcels and their valuations may not be included. The 2006 EAV is the most current available.

Source: McHenry County Clerk's Office

Commerce and Industry

The manufacturing and commercial base of the County experienced substantial growth during the period 2002, as indicated by the Economic Census.

McHenry County Economic Census			
	<u>2002</u>		<u>2002</u>
Manufacturing:		Administrative & Support & Waste management & Remediation Service:	
Establishments.....	592	Establishments	397
Employees.....	21,107	Employees.....	4,392
Payroll	\$ 814,135	Payroll	\$ 100,058
Shipments/Sales/Receipts	\$ 3,941,926	Shipments/Sales/Receipts	\$ 243,435
(000's)		(000's)	
Retail Trade:		Educational Services:	
Establishments with Payroll	827	Establishments	48
Employees.....	11,741	Employees.....	308
Payroll (000's).....	\$ 243,452	Payroll	\$ 3,574
Shipments/Sales/Receipts	\$ 2,637,228	Shipments/Sales/Receipt.....	\$ 15,159
(000's)		(000's)	
Information:		Health Care & Social Assistance:	
Establishments with Payroll	78	Establishments	556
Employees.....	1,402	Employees.....	8,445
Payroll (000's).....	\$ 56,323	Payroll	\$ 275,692
Shipments/Sales/Receipts	\$ Note*	Shipments/Sales/Receipt.....	\$ 652,366
(000's)		(000's)	
Real Estate & Rental & Leasing:		Arts, Entertainment, & Recreation:	
Establishments with Payroll	251	Establishments	117
Employees.....	1,006	Employees.....	1,629
Payroll (000's).....	\$ 25,638	Payroll	\$ 23,705
Shipments/Sales/Receipts	\$ 147,638	Shipments/Sales/Receipt.....	\$ 77,091
(000's)		(000's)	
Professional, Scientific & Technical Services:		Accommodation & Food Service:	
Establishments with Payroll	848	Establishments	452
Employees.....	3,449	Employees.....	6,181
Payroll (000's).....	\$ 146,724	Payroll	\$ 70,529
Shipments/Sales/Receipts	\$ 452,886	Shipments/Sales/Receipt.....	\$ 252,402
(000's)		(000's)	
Other Services (except public administration):			
Establishments.....	525		
Employees.....	3,092		
Payroll	\$ 61,453		
Shipments/Sales/Receipt	\$ 192,589		
(000's)			

Note: Economic Census data are released on flow basis. Data may not yet have been released for some industries and geographies.

State Retail Sales Receipts

The following tables include the 1% sales tax that is returned to the County from all businesses in unincorporated parts of the County plus the 1% sales tax returned to incorporated municipalities in the County for calendar years 2002 through 2006 and such receipts for 2006 by type of retail establishments.

Calendar <u>Year</u>	Total <u>Receipts</u>
2002	\$2,869,687,287
2003	2,957,740,299
2004	3,169,133,579
2005	3,350,598,654
2006	3,563,566,780

Source: Illinois Department of Revenue

McHenry County **1% Sales Tax Receipts By Type**

General Merchandise	\$ 459,027,552
Food.....	420,427,752
Drinking and Eating Places	301,603,621
Apparel.....	35,099,192
Furniture, Household and Radio	182,632,537
Lumber, Building and Hardware.....	322,953,662
Automotive and Filling Stations	1,011,151,575
Drugs and Misc. Retail.....	423,684,503
Agriculture and all others.....	321,632,659
Manufacturers	85,353,727
Total Receipts.....	<u>\$3,563,566,780</u>

Source: Illinois Department of Revenue

Occupational Categories

According to the 2000 Census data, County residents have a wide variety of occupations. The following table categorizes occupations for the County's employed residents 16 years of age and older and for the State's employed residents.

<u>Occupational Categories</u>	<u>McHenry County</u>	<u>State of Illinois</u>
Management, professional, and related occupations	34.6%	34.2%
Service occupations	10.9	13.9
Sales and office occupations	28.3	27.6
Farming, fishing, and forestry occupations	0.3	0.3
Construction, extraction, and maintenance occupations	10.7	8.2
Production, transportation, and material moving occupations	15.2	15.7

Largest Employers in the Area

<u>Name</u>	<u>Product or Service</u>	<u>Approximate No. of Employees</u>
Contegra Memorial Medical Center	General Medical and surgical hospital	1,061
Northern Illinois Medical Center	General Medical and surgical hospital	1,050
Cardinal Health, Inc.	Pharmaceutical preparations	1,000
Follett Library Resources, Inc.	Books, periodicals and newspaper	1,000
Intermatic, Inc.	Relays and industrial controls	800
Brown Printing Co., (Woodstock Division)	Periodicals, other commercial printing	750
Sage Products, Inc.	Surgical appliances and supplies	499
Wells Mfg. Co.	Foundries gray and ductile iron	425
Center for Corporate Training	Job training and related services	410
D.B. Hess Co.	Book printing	400

Source: 2007 Illinois Manufacturers and Services Directories

Unemployment

Preliminary unemployment statistics for the month of March as reported by the Illinois Department of Employment Security reveal there is 4.1% unemployment in McHenry County and 4.5% in the State of Illinois.

Source: Illinois Department of Employment Security

Historical Unemployment Statistics

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
McHenry County	4.6%	5.7%	5.9%	5.2%	5.1%	3.7%
State of Illinois.....	5.4%	6.5%	6.7%	6.2%	5.7%	4.5%

Source: Illinois Department of Employment Security

CERTAIN FINANCIAL INFORMATION REGARDING McHENRY COUNTY CONSERVATION DISTRICT

Trend of Equalized Assessed Valuation (Estimated 33 1/3% of Fair Market Value)

<u>By Type</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Residential	\$5,109,673,949	\$5,710,037,487	\$6,266,193,513	\$7,010,406,096	\$7,731,893,507
Commercial	724,763,410	780,500,994	863,043,762	946,543,124	1,015,786,901
Farm.....	195,335,584	201,634,804	209,598,341	227,318,830	242,266,617
Industrial.....	319,815,319	326,803,665	347,842,559	359,681,661	376,936,807
Railroad	4,255,999	4,587,948	5,113,297	4,778,453	5,075,587
Mineral	<u>12,561,726</u>	<u>13,193,732</u>	<u>13,756,505</u>	<u>15,933,834</u>	<u>15,210,290</u>
TOTAL.....	<u>\$6,366,405,987</u>	<u>\$7,036,758,630</u>	<u>\$7,705,547,977</u>	<u>\$8,564,661,998</u>	<u>\$9,387,169,709</u>

Source: McHenry County Clerk's Office

Tax Rates (Per \$100 Equalized Assessed Valuation)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Corporate	\$0.0743	\$0.0717	\$0.0700	\$0.0676	\$0.0669
Insurance	0.0034	0.0032	0.0026	0.0023	0.0023
Bonded Debt	<u>0.0957</u>	<u>0.0914</u>	<u>0.0854</u>	<u>0.0791</u>	<u>0.0744</u>
Total	<u>\$0.1734</u>	<u>\$0.1663</u>	<u>\$0.1580</u>	<u>\$0.1490</u>	<u>\$0.1436</u>

Source: McHenry County Clerk's Office

Representative Tax Rates for Property within the District*
(Per \$100 Equalized Assessed Valuation)

<u>Taxing Body</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
The District	\$0.1734	\$0.1663	\$0.1580	\$0.1490	\$0.1436
McHenry County	0.6725	0.7153	0.7346	0.7278	0.7060
School District Number 47	3.1264	2.9933	2.8927	2.7747	3.0304
High School District Number 155	2.0895	2.0433	1.9780	1.9023	2.2937
Community College District No. 528	0.3253	0.3130	0.3033	0.2922	0.2974
Algonquin Township	0.0596	0.0571	0.0551	0.0531	0.0536
Algonquin Township Road & Bridge	0.1318	0.1262	0.1217	0.1173	0.1185
City of Crystal Lake	0.7382	0.7953	0.8822	0.9272	0.9122
Crystal Lake Park District	<u>0.3702</u>	<u>0.3771</u>	<u>0.3714</u>	<u>0.3562</u>	<u>0.3732</u>
Total	<u>\$7.6869</u>	<u>\$7.5869</u>	<u>\$7.4970</u>	<u>\$7.2998</u>	<u>\$7.9286</u>

Source: McHenry County Clerk's Office

*For certain taxpayers in the City of Crystal Lake, the largest municipality in the District

Tax Extensions and Collections

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Extension	\$10,469,096	\$11,039,363	\$11,702,146	\$12,174,788	\$12,761,358
Collected	10,434,325	11,019,605	11,688,410	12,146,910	12,743,793
%	99.70%	99.80%	99.90%	99.80%	99.86%
Collected					

Source: The District.

Summary of Outstanding Bonded Debt
 (at the close of this issue)

<u>Type</u>	<u>Dated Date</u>	<u>Original Amount of Issue</u>	<u>Current Amount Outstanding</u>	<u>Final Maturity Date</u>
General Obligation Bonds, Series 1998A.....	07/01/1998	\$20,330,000	\$ 7,605,000	02/01/2018
General Obligation Bonds, Series 2001A.....	06/01/2001	68,500,000	8,005,000	02/01/2011
General Obligation Limited Tax Refunding Bonds, Series 2001B	06/01/2001	12,235,000	8,105,000	02/01/2016
General Obligation Refunding Bonds, Series 2005A	03/10/2005	58,825,000	58,260,000	02/01/2021
General Obligation Refunding Limited Tax Bonds, Series 2005B	03/10/2005	1,315,000	1,300,000	02/01/2014
The Bonds.....	07/12/2007	73,000,000	<u>73,000,000</u>	02/01/2027
Total.....			<u>\$156,275,000</u>	

Debt Repayment Schedule

Shown below is the maturity schedule for the outstanding general obligation debt of the District as of the closing of the Bonds.

Calendar Year	Principal Outstanding	The Bonds	Total Principal	Cumulative Amount	Retirement Percent
2008	\$ 2,935,000	\$ -	\$ 2,935,000	\$ 2,935,000	1.88%
2009	3,285,000	-	3,285,000	6,220,000	3.98
2010	3,655,000	-	3,655,000	9,875,000	6.32
2011	4,045,000	-	4,045,000	13,920,000	8.91
2012	4,470,000	5,000	4,475,000	18,395,000	11.77
2013	4,915,000	-	4,915,000	23,310,000	14.92
2014	5,415,000	-	5,415,000	28,725,000	18.38
2015	5,940,000	-	5,940,000	34,665,000	22.18
2016	6,510,000	-	6,510,000	41,175,000	26.35
2017	7,110,000	-	7,110,000	48,285,000	30.90
2018	7,690,000	-	7,690,000	55,975,000	35.82
2019	8,370,000	-	8,370,000	64,345,000	41.17
2020	9,085,000	-	9,085,000	73,430,000	46.99
2021	9,850,000	-	9,850,000	83,280,000	53.29
2022	-	10,730,000	10,730,000	94,010,000	60.16
2023	-	11,270,000	11,270,000	105,280,000	67.37
2024	-	11,830,000	11,830,000	117,110,000	74.94
2025	-	12,425,000	12,425,000	129,535,000	82.89
2026	-	13,045,000	13,045,000	142,580,000	91.24
2027	-	13,695,000	13,695,000	156,275,000	100.00
	<u>\$ 83,275,000</u>	<u>\$ 73,000,000</u>	<u>\$ 156,275,000</u>		

Overlapping Bonded Debt

(As of May 14, 2007)

<u>Taxing Bodies</u>	<u>Amount Applicable to District</u>
Cities and Villages	\$26,992,565
Park Districts.....	18,139,804
Library Districts.....	9,299,919
Special Service Areas	111,168,856
Elementary School Districts	165,968,399
High School Districts.....	72,137,840
Unit School Districts.....	240,601,378
Community College Districts	3,842,988
Township Road and Bridge	<u>557,500</u>
Net Overlapping Debt.....	<u>\$648,709,249</u>

Notes:

- (1) Does not include outstanding principal amounts of General Obligation (Alternate Revenue Source) Bonds that are anticipated to be paid by sources other than general taxation.
- (2) Does not include installment contracts, notes, certificates of participation or debt certificates, if any.

Source: McHenry County Clerk's Office

Debt Statement

Direct Debt (Bonds).....	\$83,275,000
This Issue	\$73,000,000
Installment Agreement.....	\$6,300,000
Total	\$162,575,000
Less Funds set-aside at the Paying Agent (2001A Bonds).....	\$(646,323)
Net Direct Debt.....	\$161,928,677
Overlapping Debt.....	\$648,709,249
Net Direct and Overlapping Debt	\$810,637,926
Equalized Assessed Valuation (2006)	\$9,387,169,709
Statutory Debt Limit (1.725% of Equalized Assessed Valuation)	\$161,928,677
Statutory Debt Margin	\$0

Debt Ratios

Estimated Market Valuation, 2006	\$28,161,509,127
Equalized Assessed Valuation, 2006	\$9,387,169,709
Estimated Population (2006)	312,373
Net Direct Debt to Equalized Assessed Valuation	1.73%
Net Direct Debt to Estimated Market Valuation	0.58%
Net Direct and Overlapping Debt to Equalized Assessed Valuation.....	8.64%
Net Direct and Overlapping Debt to Estimated Market Valuation.....	2.88%
Net Direct Debt per Capita	\$518.38
Net Direct and Overlapping Debt Per Capita	\$2,595.10

General Fund - Balance Sheet

General Fund Statement of Revenues:

Fiscal Years Ended March 31

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 (1)</u>
Assets:					
Cash and Investments.....	\$ 2,356,033	\$ 7,543,719	\$ 7,971,708	\$ 11,402,618	\$ 14,592,809
Short term investments.....	0	0	350,271	329,326	152,320
Receivables:					
Property Taxes (Net of Allowance)	4,477,114	4,682,952	4,994,918	5,339,945	5,731,826
Due From Other Governments	1,301,733	37,739	3,260,264	272,421	2,683,396
Prepaid items	0	0	0	0	6,428
Other receivable	0	0	0	0	31,044
Due from Other Funds	0	0	0	0	547
Total Assets	<u>\$ 8,134,880</u>	<u>\$ 12,264,410</u>	<u>\$ 16,577,161</u>	<u>\$17,344,310</u>	<u>\$ 23,198,370</u>
Liabilities and District Equity:					
Accounts Payable	\$ 57,104	\$ 196,221	\$ 34,190	\$ 102,800	\$ 132,851
Accrued Liabilities	321,598	343,011	427,084	420,665	218,419
Due to Other Funds	99,052	3,123,638	503,533	870,463	748,798
Deferred Revenue	4,477,114	4,695,408	7,095,692	7,400,616	7,756,850
Other Liabilities	12	0	0	0	0
Total Liabilities	<u>4,954,880</u>	<u>8,358,278</u>	<u>8,060,499</u>	<u>8,794,544</u>	<u>8,856,918</u>
Fund Balance – Unreserved	3,174,207	3,900,729	3,467,788	4,087,503	3,519,108
Fund Balance – Reserved.....	5,793	5,403	5,048,874	4,462,263	10,822,344
Total District Equity	<u>3,180,000</u>	<u>3,906,132</u>	<u>8,516,662</u>	<u>8,549,766</u>	<u>14,341,452</u>
Total Liabilities and District Equity	<u>\$ 8,134,880</u>	<u>\$ 12,264,410</u>	<u>\$ 16,577,161</u>	<u>\$ 17,344,310</u>	<u>\$ 23,198,370</u>

- (1) For the fiscal year ended March 31, 2007, the District established a new fund to account for all the activity and balances related to grant recoveries and other unique, non-reoccurring and/or non-regular revenues. Historically, all the activity related to grants and other non-operational revenues has been accounted for within the General Fund and have been referenced as the Dedicated Accounts. Under the Generally Accepted Accounting Principles (GAAP), this fund will be reported as a “special” revenue, governmental fund. All of the District’s current funds meet the requirements and are reported as “governmental” funds and the District’s Insurance Fund is also reported as a special revenue fund. The GAAP classification of the fund will have little impact on the operations of the District. The total amount of cash transferred from the General Fund to the newly established Special Revenue fund was \$10,824,307.55.

Source: The audited General Purpose Financial Statements of the District for Fiscal Years 2002 through 2006.

General Fund – Statement of Revenues and Expenditures

	Fiscal Years Ended March 31				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:					
Property Taxes.....	\$ 4,175,971	\$ 4,507,305	\$ 4,721,780	\$ 5,038,579	\$ 5,381,543
Intergovernmental.....	960,290	187,503	815,034	1,507,358	919,518
Rental Income.....	266,265	336,656	482,717	638,158	593,547
Interest Income.....	107,030	63,362	87,880	171,564	458,839
Miscellaneous.....	<u>142,234</u>	<u>163,974</u>	<u>171,434</u>	<u>319,017</u>	<u>167,279</u>
Total Revenues	<u>\$ 5,651,790</u>	<u>\$ 5,258,800</u>	<u>\$ 6,278,845</u>	<u>\$ 7,674,676</u>	<u>\$ 7,520,726</u>
Expenditures:					
Administration.....	\$ 602,567	\$ 815,349	\$ 776,861	\$ 1,059,370	\$ 1,043,197
Educational Services.....	486,385	501,761	483,930	518,388	573,824
Police and Safety.....	603,050	616,550	582,931	623,422	698,817
Land and Facilities Management.....	1,559,321	1,524,079	1,603,910	1,745,103	1,750,245
Natural Resources Management.....	698,091	610,184	612,516	759,836	812,640
Planning and Development.....	220,527	155,868	129,495	131,137	179,112
Wildlife Resources.....	120,704	133,603	140,391	144,239	152,957
Communications.....	351,904	345,769	385,360	365,949	306,230
Trail of History.....	32,061	25,797	70,880	75,005	47,464
Kishwaukee Ecosystem Project.....	0	42,270	32,400	0	0
Boger Project.....	0	0	0	9,855	9,555
Pipeline Agreement.....	0	0	0	3,525	0
Research Field Station.....	11,361	17,790	96,113	112,330	108,489
Capital Outlay.....	<u>944,557</u>	<u>296,448</u>	<u>1,175,993</u>	<u>421,899</u>	<u>731,847</u>
Total Expenditures	<u>\$ 5,630,528</u>	<u>\$ 5,085,468</u>	<u>\$ 6,090,780</u>	<u>\$ 5,970,058</u>	<u>\$ 6,414,377</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>21,262</u>	<u>173,332</u>	<u>188,065</u>	<u>1,704,618</u>	<u>1,106,349</u>
Total Other Financing Sources (Uses) ... Over (Under) Expenditures	<u>\$ 4,663</u> <u>\$ 25,925</u>	<u>2,800</u> <u>\$ 176,132</u>	<u>7,802</u> <u>\$ 195,867</u>	<u>7,861</u> <u>\$ 1,712,479</u>	<u>32,509</u> <u>\$ 1,138,858</u>
Fund Balance at Beginning of Year.....	3,154,075	3,180,000	3,906,132	8,516,662	8,549,766
Prior period adjustment.....	0	550,000	0	(1,679,375)	4,652,828
Operating transfer in.....	<u>0</u>	<u>0</u>	<u>4,414,663</u>	<u>0</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 3,180,000</u>	<u>\$ 3,906,132</u>	<u>\$ 8,516,662</u>	<u>\$ 8,549,766</u>	<u>\$ 14,341,452</u>

Source: The audited General Purpose Financial Statements of the District for Fiscal Years 2002 through 2006.

Budget

(for Fiscal Year 2008)

	<u>General</u>	<u>Special Revenue</u>	<u>Insurance</u>	<u>Bond Debt Service</u>	<u>Bond Proceeds</u>
Estimated Cash Balance 4/01/07 (Unaudited) ..	\$3,928,931	\$10,040,020	\$165,560	\$699,825	\$1,448,127
Total Budgeted Revenue	7,398,132	3,280,320	194,744	9,957,817	74,442,853
Total Budgeted Expenditures	<u>(7,914,269)</u>	<u>(11,987,546)</u>	<u>(206,144)</u>	<u>(9,785,988)</u>	<u>(68,464,589)</u>
Projected Ending Balances 3/31/2008	<u>\$ 3,412,794</u>	<u>\$ 1,332,794</u>	<u>\$ 154,160</u>	<u>\$ 871,654</u>	<u>\$7,426,391</u>

Source: The District.

SHORT-TERM FINANCING RECORD

The District has not previously utilized any short-term borrowing.

FUTURE FINANCING

The District does not anticipate issuing any additional debt in the next 12 months.

DEFAULT RECORD

The District has no record of default and has met its debt repayment obligations promptly.

RETIREMENT FUND COMMITMENTS

Details regarding retirement fund commitments are summarized in Note 7 to the District's March 31, 2006 audited financial statement.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the District's compliance with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its

AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would include all tax exempt interest, including interest on the Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the District with respect to certain material facts within the District’s knowledge. Bond Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Bonds (the “OID Bonds”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the District complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond’s stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the “Revised Issue Price”), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it

accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the District as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

LITIGATION

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's attorney, the resolution of these matters will not have a material adverse effect on the financial conditions of the District.

BOND RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned their municipal bond rating of "Aaa" and "AAA" respectively, to the Bonds with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by Financial Security Assurance, Inc. See "BOND INSURANCE" above.

These ratings reflect only the views of Moody's and S&P and any explanation of the significance of such ratings may only be obtained from Moody's and S&P. Certain information concerning the Bonds and the District not included in this Official Statement was furnished to Moody's and S&P by the District. There is no assurance that the ratings will be maintained for any given period of time or that they may not be changed by Moody's or S&P, if, in their judgment, circumstances so warrant. Any downward change in or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. Except as may be required by the Undertaking described below under the heading "CONTINUING DISCLOSURE," neither the District nor the Underwriters undertake responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

In addition, the District has received underlying ratings of "Aa1" and "AA" on the Bonds from Moody's and S&P, respectively.

CONTINUING DISCLOSURE

The District will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events that will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under "THE UNDERTAKING."

Due to a change in auditors, for the fiscal year ending June 30, 2005, the District did not file its audited financial statements or its annual financial information as required by a previous continuing disclosure undertaking. The required audited financial statements and annual financial information was filed with each NRMSIR through Disclosure USA prior to the sale of the Bonds. The District has established procedures to ensure timely filings in the future. A failure by the District to comply with the Undertaking will not constitute a default under the Bond Ordinance and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "THE UNDERTAKING—Consequences of Failure of the District to Provide Information." A failure by the District to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market.

Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Bond Counsel expresses no opinion as to whether the Undertaking complies with the requirements of Section (b)(5) of the Rule.

THE UNDERTAKING

The following is a brief summary of certain provisions of the Undertaking of the District, and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the District.

Annual Financial Information Disclosure

The District covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements, if any (as described below), to each Nationally Recognized Municipal Securities Information Repository (a “NRMSIR”) then recognized by the Securities and Exchange Commission for purposes of the Rule and to the repository, if any, designated by the State of Illinois as the state depository (the “SID”) and recognized as such by the Commission for purposes of the Rule. The District is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking.

“Annual Financial Information” means information of the type contained in the following tables, headings and exhibits of the Final Official Statement:

Trend of Equalized Assessed Valuation
Tax Rates
Representative Tax Rates for Property within the District
Tax Extensions and Collections
Summary of Outstanding Debt
Debt Repayment Schedule
Debt Statement (with respect to the District’s debt only)
Debt Ratios (with respect to the District’s debt only)
General Fund- Balance Sheet
General Fund- Statement of Revenues and Expenditures

“Audited Financial Statements” means the combined financial statements of the District prepared in accordance with generally accepted accounting principles and Government Auditing Standards, issued by the Comptroller General of the United States.

Material Events Disclosure

The District covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”) and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The “Events” are:

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties

- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to the rights of security holders
- Bond calls
- Defeasances
- Release, substitution or sale of property securing repayment of the securities
- Rating changes

Consequences of Failure of the District to Provide Information

The District shall give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the District to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order to cause the District to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Ordinance, and the sole remedy under the Undertaking in the event of any failure of the District to comply with the Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the District by resolution or ordinance authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

- (a) The amendment or the waiver is 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 the District, or type of business conducted;
- (b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by parties unaffiliated with the District (such as Bond Counsel).

Termination of Undertaking

The Undertaking shall be terminated if the District shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Ordinance. The District shall give notice to each NRMSIR or to the MSRB and to the SID, if any, in a timely manner if this paragraph is applicable.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the District chooses to include any information from any document or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the District shall have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

Dissemination Agent

The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. So long as such method continues to be approved by the Commission for purposes of the Rule, the District may satisfy its obligations for all purposes of the Undertaking to provide information or notice to each NRMSIR and to the SID, if any, by sending such information or notice to Disclosure USA (at, as of the date of the Undertaking www.DisclosureUSA.org) for submission to each NRMSIR and to the SID, if any.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, as Bond Counsel (the “Bond Counsel”) who has been retained by, and acts as, Bond Counsel to the District. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of the Underwriters, supplied the information under the heading “TAX EXEMPTION” and reviewed the statements describing its approving opinion, to determine whether such descriptions are accurate summaries in all material respects. The review was undertaken solely at the request and for the benefit of the Underwriters. Chapman and Cutler LLP will also pass on certain matters for the Underwriters. Certain legal matters will be passed upon for the District by its counsel, Meltzer, Purtill & Stelle, Schaumburg, Illinois.

UNDERWRITING

The Underwriters, Raymond James & Associates, Inc., Chicago, Illinois, as senior managing underwriter, and PMA Securities Inc., Warrenville, Illinois (the “Underwriters”), have agreed, subject to the terms of a bond purchase contract (the “Purchase Contract”) to purchase the Bonds from the District. The Purchase Contract provides, in part, that the Underwriters, subject to certain conditions, will purchase from the District the aggregate principal amount of Bonds for a purchase price as set forth therein. The Underwriters have further agreed to offer the Bonds to the public at the approximate initial offering prices as set forth on the inside cover hereto. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover hereto. The offering prices may be changed from time to time by the Underwriters. The aggregate underwriting fee equals 0.445 percent of the par amount of the Bonds.

The Purchase Contract provides that the obligations of the Underwriters are subject to certain conditions, including, among other things, that there has not been any event, court decision, proposed law or rule that may have the effect of changing the federal income tax incidents of the Bonds. The Purchase Contract further provides that the District will provide to the Underwriters within seven business days of the date of the Purchase Contract sufficient copies of the Official Statement to enable the Underwriters to comply with the requirements of Rule 15c2-12(b)(4) under the Securities Exchange Act of 1934, as amended.

THE OFFICIAL STATEMENT

This Official Statement includes the cover page, reverse thereof and the Appendices hereto.

All references to material not purporting to be quoted in full are only summaries of certain provisions thereof and do not purport to summarize or describe all the provisions thereof. Reference is hereby made to such instruments, documents and other materials for the complete provision thereof, copies of which will be furnished upon request to the District.

Accuracy and Completeness of the Official Statement

This Official Statement has been approved by the District for distribution to the Underwriters of the Bonds.

The District's officials will provide to the original purchaser of the Bonds at the time of delivery of the Bonds, a certificate confirming to the purchaser that, to the best of their knowledge and belief, the Official Statement, with respect to the Bonds, at the time of the sale and delivery of the Bonds, was true and correct in all material respects and did not at any time contain an untrue statement of a material fact or omit to state a material fact required to be stated, where necessary to make the statements, in light of the circumstances under which they were made, not misleading.

/s/ Elizabeth S. Kessler, MBA, CPRP
Executive Director
McHenry County Conservation District
McHenry County, Illinois

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Form of Legal Opinion of Bond Counsel

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PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined certified copy of the proceedings (the "*Proceedings*") of the Board of Trustees of the McHenry County Conservation District, McHenry County, Illinois (the "*District*"), passed preliminary to the issue by the District of its fully registered General Obligation Bonds, Series 2007 (the "*Bonds*"), to the amount of \$73,000,000, dated July 12, 2007, due on February 1 of the years and in the amounts and bearing interest as follows:

YEAR OF MATURITY	PRINCIPAL AMOUNT	RATE OF INTEREST
2012	\$ 5,000	4.000%
2022	10,730,000	5.000%
2023	11,270,000	5.000%
2024	11,830,000	5.000%
2025	12,425,000	5.000%
2026	13,045,000	5.000%
2027	13,695,000	5.125%

the Bonds due on or after February 1, 2022, being subject to redemption prior to maturity at the option of the District as a whole or in part in any order of their maturity (less than all of the Bonds of a single maturity to be selected by the Bond Registrar), on February 1, 2017, or on any date thereafter, at the redemption price of par plus accrued interest to the redemption date, as provided in the Proceedings, and we are of the opinion that the Proceedings show lawful authority for said issue under the laws of the State of Illinois now in force.

We further certify that we have examined the form of bond prescribed for said issue and find the same in due form of law, and in our opinion said issue, to the amount named, is valid and legally binding upon the District, and all taxable property in the District is subject to the levy of taxes to pay the same without limitation as to rate or amount, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is our opinion that, subject to the District's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the District with respect to certain material facts within the District's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Appendix B

Audited Financial Statement for the Fiscal Year Ended March 31, 2006

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MCHENRY COUNTY CONSERVATION DISTRICT
MCHENRY COUNTY, ILLINOIS

ANNUAL FINANCIAL REPORT

For the Year Ended
March 31, 2006



Certified Public Accountant & Advisors

MCHENRY COUNTY CONSERVATION DISTRICT
MCHENRY COUNTY, ILLINOIS
TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	1-2
GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS	
Management's Discussion and Analysis	MD&A 1-12
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of Fund Balances of Governmental Funds to the Governmental Activities in the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balances	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Governmental Activities in the Statement of Activities	8
Notes to Financial Statements	9-24
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	25
Illinois Municipal Retirement Fund Schedule of Funding Progress	26
Schedule of Employer Contributions	27
Notes to Required Supplementary Information	28

MCHENRY COUNTY CONSERVATION DISTRICT
MCHENRY COUNTY, ILLINOIS
TABLE OF CONTENTS (Continued)

	<u>Page(s)</u>
COMBINING AND INDIVIDUAL FUND SCHEDULES	
MAJOR GOVERNMENTAL FUNDS	
General Fund	
Schedule of Revenues - Budget and Actual	29
Schedule of Expenditures - Budget and Actual	30-37
Debt Service Fund	
Schedule of Revenues, Expenditures, and	
Changes in Fund Balance - Budget and Actual	38
Capital Projects Fund	
Schedule of Revenues, Expenditures, and	
Changes in Fund Balance - Budget and Actual	39
NONMAJOR GOVERNMENTAL FUNDS	
Special Revenue Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual	
Insurance Fund	40
OTHER SUPPLEMENTAL INFORMATION - UNAUDITED	
Municipal Securities Disclosure Requirements of the	
Securities Exchange Commission (SEC) Rule 15c2-12	
Debt Service Extension Base	41
Equalized Assessed Valuation	42
Tax Rates Per \$100 EAV	43
2005 Representative Total Tax Rate Per \$100 EAV	44
Tax Extensions and Collections	45
Schedule of Legal Debt Margin	46
Detailed Statement of Direct and Overlapping Bonded Indebtedness	47
Debt Service Schedule	48
Balance Sheets - General Fund	49
Statement of Revenues, Expenditures, and	
Changes in Fund Balance - General Fund	50



998 Corporate Boulevard • Aurora, IL 60502

Certified Public Accountants & Advisors

*Members of American Institute of
Certified Public Accountants &
Illinois CPA Society*

INDEPENDENT AUDITOR'S REPORT

The Honorable President
Members of the Board of Trustees
McHenry County Conservation District
McHenry, Illinois

We have audited the governmental activities, each major fund, and the aggregate remaining fund information of the McHenry County Conservation District as of and for the year ended March 31, 2006, which collectively comprise the McHenry County Conservation District's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the McHenry County Conservation District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McHenry County Conservation District, as of March 31, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McHenry County Conservation District's basic financial statements. The individual fund schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual nonmajor fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The other supplemental information listed in the table of contents was not audited by us and, accordingly, we do not express an opinion thereon.

John L. R.

Aurora, Illinois
June 29, 2006

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the McHenry County Conservation District's Comprehensive Annual Financial Report presents management's discussion and analysis of the District's financial activity during the fiscal year ended March 31, 2006. As the management of the District, we welcome this opportunity to offer readers this narrative overview and analysis designed to focus on current activities, comparative changes and currently known facts. For a more complete perspective of the District's financial condition, please read this discussion and analysis in conjunction with the District's basic financial statements and footnotes.

PROFILE OF THE DISTRICT

Created by a group of ecologically conscientious citizens in 1971 and supported by the Illinois Conservation District Act of 1963, the McHenry County Conservation District began with the mission to preserve open space, and to provide environmental education programs and resources for recreational opportunities to the public. Thirty-five years later, the McHenry County Conservation District (MCCD) continues as a special district governed by a seven-member Board of Trustees appointed by the McHenry County Board.

MCCD has its own taxing authority to accomplish its mission of preservation, education, and recreation. The majority of funding for the District is generated through a tax levy not to exceed 1/10th of one percent of the assessed value of all properties in McHenry County. The District may also issue bonds for the purpose of land acquisition and site improvements. The funding requirements for the levy and budget are guided by District goals and objectives. These goals are approved by the MCCD Board of Trustees.

FINANCIAL HIGHLIGHTS

The key financial highlights for fiscal year 2006 are as follows:

- The assets of the District exceeded liabilities by \$67,707,416 as of March 31, 2006. \$3,580,715 of this amount is unrestricted net assets and are available to meet the on-going needs of the government, \$11,535,655 is restricted for specific purposes and \$52,591,046 is invested in capital assets, net of related debt.
- The District's net assets decreased by \$2,539,939 during the fiscal year. This is largely the result of two prior period adjustments, which collectively reduced net assets by \$9,998,131. A detailed explanation of the adjustments is provided in the discussion of Net Assets of this report.
- As of March 31, 2006 the District's governmental funds reported a combined ending fund balance of \$21,464,644. This is an increase of \$1,942,248 from the prior year or 9.9%. The District made several prior period adjustments which had a net increase to the fund balance of \$4,302,555. A detailed explanation of the adjustments is provided in the Governmental Fund Financial Analysis of this report.
- \$3,519,108 or 16% of the combined ending fund balance constitutes unrestricted fund balance, which is available for spending at the District's discretion.
- More than \$3.9 million dollars were expended to acquire almost 393 acres of open space and develop and improve current land holdings and facilities.
- The District's equalized assessed value (EAV) for all taxable properties grew from \$7,705,547,977 to \$8,564,661,998 or by 11.1%.

(See independent auditor's report)

- The District's debt margin as of March 31, 2006 was \$61,850,419. This is \$17,449,716 more than last year.
- The District did not issue new debt during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The McHenry County Conservation District's basic financial statements comprise three components: 1) District-wide financial statements; 2) Fund Financial Statements; and 3) Notes to the Financial Statements. Required Supplementary Information is included in addition to the basic financial statements.

District-wide Financial Statements are designed to provide readers with a broad overview of the District's finances, in accordance with full accrual accounting concepts, in a manner similar to a private-sector business. Revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of the cash flows.

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

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

The District-wide financial statements can be found on Pages 3 and 4 of this report.

Fund Financial Statements— A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only one type of fund: governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on the balance of expendable resources available at the end of the fiscal year. This information is useful in evaluating the District's near-term financing requirements.

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

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Information for the Special Revenue Insurance Fund is presented as a non-major fund and included in the other governmental fund caption in the financial statements.

(See independent auditor's report)

The governmental fund financial statements can be found on pages 5-8 of this report.

Notes to the Financial Statement provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

The notes to the financial statements can be found on Pages 9-24 of this report.

Required Supplementary Information is presented concerning the District's General Fund budgetary schedule, the IMRF (Illinois Municipal Retirement Fund) and the District's IMRF pension schedule. The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. The IMRF and pension schedule have been provided to present IMRF's progress in funding its obligation to provide pension benefits to District employees.

Required supplementary information can be found on pages 25-28 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS:

The District-wide financial statements include all governmental and proprietary activities of a government. The District has only governmental activities and no proprietary activities, therefore only governmental activities are reported in the government-wide financial statements.

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. As of March 31, 2006, the District, assets exceeded liabilities by \$67,707,416. This is a decrease of \$2,539,939 or 3.6% from the previous year. The following table reflects a condensed comparative statement of net assets.

District's Net Assets For the Fiscal Years Ended March 31st

	2006	2005
Assets:		
Current and other assets	\$ 37,063,531	\$ 36,764,012
Capital Assets	132,071,165	124,615,937
Total Assets	<u>\$ 169,134,696</u>	<u>\$ 161,379,949</u>
Liabilities:		
Current and other liabilities	14,658,769	3,363,261
Long-term liabilities	85,675,391	87,769,333
Total liabilities	<u>101,427,280</u>	<u>91,132,594</u>
Net Assets:		
Investment in capital assets, net of related debt	52,591,046	46,489,024
Restricted	11,535,655	5,248,884
Unrestricted	3,580,715	18,509,447
Total net assets	<u>\$ 67,707,416</u>	<u>\$ 70,247,355</u>

Current assets include cash, short-term investments and receivables of the District. The total current assets increased by \$299,519 dollars during the current fiscal year. This increase was largely the result of the property

(See independent auditor's report)

tax and grant receivables collectively increasing approximately \$1 million dollar, netted against a reduction of cash and short-term investments of approximately \$700,000.

Capital assets included land and land improvement, buildings and improvements, fixtures and equipment and vehicles. Changes in the Capital assets will be discussed below in the Capital Asset section.

Current liabilities include accounts payable, accrued liabilities, and deferred revenue. The increase of \$12,388,628 is largely due to a prior period accounting adjustment. In the District's first efforts to begin compliance with GASB 34 for the fiscal year ended March 31st, 2003, the District began recognizing property taxes 'levied', but not collected, as *revenue in the fiscal year the levy was made*. Because the property taxes from the levy are not utilized to finance expenditures of the current fiscal period, they are more appropriately classified as *deferred revenue*. The District has made a prior period adjustment of \$12,053,018 to record the deferred revenue and adjust the fund balance. (This aligns the property tax revenue recognized in the Government-Wide Financial Statements with the amount recognized in the District's Fund Financial Statements.)

Long-term liabilities consist mainly of bonds payable. Long-term liabilities will be discussed in the Long-term Debt section below.

The largest portion of the District's net assets is the \$52,591,046 invested in capital assets net of related debt and makes up 78% of the total net assets. Net assets invested in capital increased \$6.1 million dollars or 13% over the prior period. The increase is the result of acquiring \$7.6 million dollars of land and investing \$1.1 million dollars in site and trail developments and improvements. (This is netted against the increased accumulated depreciation.) Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets, \$11.5 million or 16.7%, represents resources that are subject to restrictions on how they may be used. The restricted net assets include assets held for the specific purposes of debt service, land acquisition, scholarships, site improvements and tort liability. The total restricted net assets increased by \$6.3 million dollars from the previous year. This substantial increase is due to the following reclassifications:

- Assets (comprised of cash and cash equivalents) legally restricted for purposes of tort liability and loss control were not identified as restricted in the prior year. This represents a \$130,073 increase over the prior period.
- Assets (comprised of cash, cash equivalents and investments) that were generated from the issuance of debt and grant recoveries are restricted for land acquisition and capital improvements, but were not reported as restricted in the prior year. The prior year's understatement of restricted net assets was approximately \$12.5 million dollars.

The remaining balance of unrestricted net assets of \$3,580,715 may be used to meet the District's ongoing obligations to citizens and creditors. This represents a \$14.9 million dollar decrease in unrestricted net assets from the prior year. As noted earlier, this is largely due to the fact the \$12.5 million dollars of restricted net assets were classified as unrestricted in the previous period. The District is able to report positive balances in all three categories of net assets. This is consistent with the prior year.

The District has restated the prior period ending Net Assets and this is explained in detail below in the 'Change in Net Assets' section of this report.

The Statement of Net Assets can be found on page 3 of this report.

(See independent auditor's report)

Change in Net Assets. The Following table summarizes the District's changes in Net Assets for the current reporting period and the prior period ended March 31st, 2005.

**District's Change in Net Assets
For the Fiscal Years Ended March 31st**

	2006	2005	% Variance
Revenues:			
Charges for services	\$ 747,041	\$ 942,992	-20.8%
Grants	753,875	1,431,188	-47.3%
Tax revenues	12,312,554	12,287,775	0.2%
Investment earnings	863,241	442,572	95.1%
Contributions	4,001,643	0	N/A
Other sources	40,477	-226,490	-117.9%
Total revenues	\$ 18,718,831	\$14,878,037	25.8%
Governmental activities:			
General government	1,277,582	1,356,349	-5.8%
Operations and programs	5,073,036	5,442,435	-6.8%
Land develop. & acquisition	717,991	173,650	313.5%
Interest on long-term debt	4,073,667	4,544,626	-10.4%
Other expenses	118,363	56,749	108.6%
Total expenses	\$ 11,260,639	\$11,573,809	-2.7%
Change in net assets	7,458,192	3,304,228	125.7%
Net assets - beginning	70,247,355	66,943,127	4.9%
Prior period adjustments	(9,998,131)	0	
Net assets -April 1st restated	\$ 60,249,224	\$66,943,127	-10.0%
Net Assets March 31st	\$ 67,707,416	\$70,247,355	-3.6%

The District has made prior period adjustments that collectively net to \$9,998,131 and the net assets have been adjusted accordingly. A schedule of the adjustments can be found in the Notes to Financial Statements on page 24 of this report. The explanation of the adjustments are as follows:

- **Recognize property tax revenue in the proper period.** As previously noted, in the District's first efforts to begin compliance with GASB 34 for the fiscal year ended March 31st, 2003, the District begin recognizing property taxes 'levied', but not collected, as *revenue in the fiscal year the levy was made*. Because the property taxes from the levy are not utilized to finance expenditures of the current fiscal period, they are more appropriately classified as *deferred revenue*. The District has made a prior period adjustment \$12,053,018 to record the deferred revenue and the overstatement of revenue in the prior period.

(See independent auditor's report)

- **Recognize grant revenue in the proper period.** In 2002, the District was awarded a \$2,000,000 OSLAD matching grant for the purposes of land acquisition and development of a specific site. Substantially all parcels related to the grant had been acquired prior to the 2005 fiscal year, but no receivable or revenue had been recognized in the prior periods. The District also was awarded two lesser grants to develop sites totaling \$153,059 in prior years. A portion of the required work was completed in the prior period and \$54,887 of the associated revenue should have been recognized accordingly. The District has made a prior period adjustment to reflect the understatement of revenue in the prior period.

Governmental Activities. The revenues and expenditures resulting from the District's operations are discussed below. The following table shows a comparative summary of revenues for the District for the fiscal years ended March 31st.

Comparative Summary of Revenues

	2006	2005	% Variance
Tax revenues	\$ 12,312,554	\$ 12,287,775	0.2%
Grants	753,875	1,431,188	-47.3%
Rental income	593,547	638,158	-7.0%
Programs & services	165,636	304,834	-45.7%
Investment income	863,241	442,572	95.1%
Contributions	4,001,643	-	N/A
Gain (loss) on disposal assets	28,335	(226,490)	-112.5%
Total Revenues	\$ 18,718,831	\$ 14,878,037	25.8%

In order to facilitate a better understanding of the District's sources of revenue and a more meaningful comparison between the years, it is important to understand:

Grant Revenues: Substantially all Grant revenues are tied to specific new developments and one-time projects and do not fund or support the 'on-going' operational needs of the District. Therefore, the grant related revenues fluctuate from year-to-year, depending on the projects identified by the District, their success at attracting available grant funding, and their ability to make progress on the project in order to recognize the revenue.

Contributions: Contributions are not considered a source of funding for the on-going operations of the District. The \$4,001,643 for the fiscal year ended March 31st, 2006 is largely the result of a one-time donation of land valued at \$4 million dollars.

Gain/(loss) on Disposal of Capital Assets: The \$28,335 is the result of the sale or disposition of fixed assets and is not considered as 'on-going' source of revenue for the District.

Tax revenues include property taxes of \$12,146,911 and represent 65.8% of *total* revenues for the period. When the 'one-time' sources of grant revenues, contributions, and gain/(losses) on disposal of capital assets are excluded from total revenues, the property tax revenues account for 83.7% of *total on-going* revenues. The .2% increase in tax revenues as shown above is not reflective of the actual increase for the current reporting year. As previously explained in the discussion of Changes in Net Assets, this is due to property tax revenues being

(See independent auditor's report)

overstated in the prior period. Using this approach, the property tax revenue that would have been reported for fiscal year 2005 is \$11,686,411. The 2006 property tax revenue of \$12,146,911 is a 3.9% increase over the adjusted 2005 property tax revenue and is consistent with the annual increases in tax dollars experienced by the District over the last several years.

Tax Revenues \$5.4 million dollars of the 2006 property tax revenues are designated to the General Fund to support the on-going operations of the District. This represents a \$342,964 or 6.8% increase over the previous year. The District received \$6,565,482 in tax revenues to service debt. This is a 2.2% increase over the prior year. Grant revenues were down \$677,313 or 47% from the prior period. However, as previously noted, the timing of the recognition of grant revenue is such that there will be fluctuations from year to year. The reduction in grant revenues does not significantly impact the financial performance of the District as the District does not rely on grant revenues to support the on-going operations of the District.

Expenditures. The following table shows a comparative summary of expenditures for the District for the fiscal years ended 2006 and 2005.

Comparative Summary of Expenses

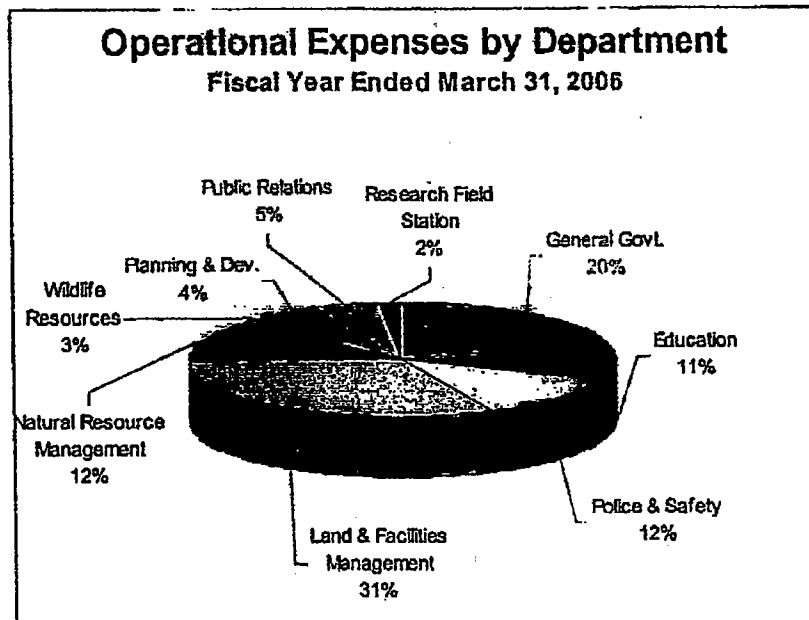
Expenses:	2006	2005	% Variance
General government	\$ 1,277,582	\$ 1,356,349	-5.8%
Operations & services	5,073,036	4,991,604	1.6%
Land development and acquisition	836,354	712,866	17.3%
Debt service	4,073,667	4,544,626	-10.4%
Other expenses	-	(31,636)	-100.0%
Total Expenses	<u>\$ 11,260,639</u>	<u>\$ 11,573,809</u>	-2.7%

For the most part, expenses closely paralleled inflation, which based on the national Consumer Price Index, was 3.4% for the calendar year ended December 31, 2005. This is not reflective in the percentage variance for total expenses from fiscal year 2006 vs. fiscal year 2005, due to several factors, which include the following:

- There was a one-time expense of \$72,000 for early retirement incentives in fiscal year 2005.
- The District became a member of the Park District Risk Management Agency (PDRMA) in the last quarter of fiscal year 2005. PDRMA is a self-insured intergovernmental risk management pool which provides the District with all its general and commercial liability insurance. As a result of this change, the District realized a \$27,439 savings in related insurance costs.
- In 2005, the District reported \$83,000 of contractual costs of labor associated with land acquisition, development and restoration projects, as operational wages. In 2006, these costs have not been included as Operational wages, but have been more appropriately included as part of the Land Development and Acquisition costs. This, combined with increased depreciation expense from land and site developments, also accounts for the 17.3% increase in the Land Development & Acquisitions costs from fiscal year 2005 to 2006.
- In February of 2005, the District refunded (refinanced) \$58,490,000 of outstanding bonds. The refunding resulted in reduced debt service payments and an over-all savings to the District of \$3,602,710 over the remaining life of the bonds.

(See independent auditor's report)

The following chart shows the operational expenses by department as a percentage of total governmental activities. In order to better illustrate the allocation of resources by operational department, expenses related to land acquisition and development and interest on debt have not been included. There has been no significant changes in the allocation of resources to departmental operations from the previous year.



GOVERNMENTAL FUND FINANCIAL ANALYSIS:

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements.

Governmental funds. The general government functions are presented in the General, Special Revenue, Debt Service, Capital Project Fund.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$21,464,644 an increase \$1,942,248 or 9.9% over the prior year of \$19,522,396. The increase is the result of the General Fund balance increasing \$5.8 million and the Capital Projects fund balance decreasing \$3.9 million. The Funds are discussed in detail below.

General Fund

The general fund is the main operating fund of the District. At the end of the current fiscal year, the total fund balance of the general fund was \$14,341,452, or \$5,791,686 over the previous year. The increase in the General Fund is due to the following:

- The majority of grants received by the District are matching or reimbursement grants. These grants require the District to expend a certain amount of resources toward a grant related project. The District is reimbursed once the project is completed according to the terms of the grant. GAAP requires that a receivable be recognized at the fund level for the portion of expenses incurred, even though the project may not be complete or reimbursements received. In prior years the District has recognized this

(See independent auditor's report)

receivable at the government-wide level, but has not properly recognized this receivable at the fund level. To adjust related grant receivable and revenue, the District has made a prior period adjustment of \$4,032,669 to the General Fund's reserved fund balance.

- GAAP requires that a liability and expense be recognized for compensated absences (such as vacation and sick leave) that are earned, but not yet paid. Under modified accrual accounting, this liability should only be recognized when due- that is when any employee leaves the employment of the District. In prior years, the District has recorded a liability and related expense for all accrued compensated absences at the fund level. The District has made a prior period adjustment to remove this liability and increase the General Fund's unreserved fund balance by \$340,583.
- During the fiscal year 2003, a series of audit adjusting entries were made relating to the recording of grant revenues. There was considerable debate over whether grant revenues which were reimbursing projects that were completed with bond debt proceeds should be recorded to the General or Capital Projects funds. For fiscal year 2003 it was determined that the proceeds should be recorded to the Capital Projects fund. During 2004, the initial decision was reversed and it was determined that the bond proceeds should not be co-mingled with grant recoveries, but should be recognized separately. As such, they were recorded to the General Fund and a series of entries and prior period adjustments were made to adjust the 2003 revenues and related grant receivables. However, the 'interfund' balances have remained off by \$350,063 since that time. The District has made a prior period adjustment to increase the General Fund's reserved fund balance and decreasing the Capital Project's fund balance by \$350,063.
- The District did not recognize a liability for property taxes owed, but not paid for the prior fiscal year ended March 31st, 2005. The District has made a prior period adjustment, resulting in a decrease of \$70,487 to the General Fund's unreserved fund balance.
- The District's total operating revenues exceeded total operating expenditures by \$1,138,858 resulting in an equivalent increase to the General Fund's fund balance. This includes \$753,875 of reimbursement grant revenues which are restricted for future capital projects and therefore included in 'Reserved' Fund Balance. When the grant revenues are excluded from total revenues, the District's operating revenues form regular on-going operations exceeded expenditures by only \$384,983.

\$10,822,344 of the General Fund's fund balance is reserved for scholarships, land acquisition and land improvements. This is an increase in reserved fund balance of \$6,360,081 from the previous year. The increase in reserved fund balance is largely due to the following:

- Prior period adjustments of \$4,382,732 as explained above.
- Recognition of \$1,075,830 of grant revenues and related interest earnings in the current reporting period which are reserved for future capital projects.
- The prior period understated reserved fund balance and overstated unreserved fund balance by approximately \$900,000

The unreserved fund balance of \$3,519,108 represents a decrease of \$568,395 from the previous period, however the prior year's unreserved balance should have been reported as approximately \$3,185,984. The unreserved fund balance as of March 31st, 2006 represents an increase of approximately \$333,124 over the adjusted prior year- end balance.

As a measure of the General funds liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance represents approximately 55% of total current fiscal year general fund expenditures, while total fund balance represents 224% of the same amount.

(See independent auditor's report)

Capital Projects Fund

The Capital Projects fund provides for the majority of the District's land acquisitions and site and trail developments. It consists of remaining proceeds from a 2001 bond debt issuance and the investment earnings on those proceeds, all of which are restricted for land acquisition and improvements. The Capital Projects fund balance decreased by \$3.9 million during the current fiscal year as the District expended \$2.8 million dollars to acquire 393 acres of open space and an additional \$1.1 million to develop and improve sites and trails.

Debt Service Fund

Principal and interest payments on the District's outstanding debt are made from the Debt Service Fund. The debt service payments are made from the receipt of property tax revenues which are legally restricted for the liquidation of the debt. The Debt Service fund balance grew to \$583,238 for the reporting period. This is an increase of \$95,024 over the prior period's balance and largely due to a consistently high collection rate of property tax dollars and rising investment yields. The District will consider a tax abatement during the next property tax levy period to reduce this surplus.

Special Revenue Fund

The Special Revenue Fund provides for the District's risk management and loss control needs, including general and commercial liability insurance. During the current fiscal year, revenues exceeded expenditures by \$21,897 and fund balance increased accordingly to \$130,073.

GENERAL FUND BUDGETARY HIGHLIGHTS

In May of each year, after a public hearing, the Board approves a Final Budget. For the year ended March 31, 2006, the final budget was not amended; therefore, the final budget served as both the original and final budget for the fiscal year 2006. Budget to actual statements and schedules for the General Fund are provided starting on page 29 of the Financial Statements. Significant variances from budgeted and actual revenue and expenditures include the following:

- Actual revenues were less than budgeted by \$3,366,346. This is largely the result of timing differences in the anticipated progress of grant related projects during the budgeting process and the actual accomplishments during the fiscal year. Grant revenues actually recognized were approximately \$3.4 million less than budgeted. As previously noted, this has very little impact on the financial position of the District, as grant revenues do not support regular operations, but rather fund specific projects. The District does not use 'operational' revenues to fund the initial costs of grant projects, but rather relies on either bond proceeds or the actual receipt of prior grant recoveries.
- Interest on investments exceeded budget by \$247,466 as the District uses a conservative approach to forecast the interest rate environment for budgeting purposes.
- The District performed a comprehensive review and revision of its compensation system. The budget included implementation of the new system at the start of the fiscal year, but the implementation did not actually take place until the last quarter of the fiscal year. Additionally, several positions were budgeted for, but remained unfilled for portions of the year. Collectively, these accounted for a savings in actual salary and related benefits costs of \$280,967.
- The District appropriated and budgeted to expend \$7,057,463 of the existing funds reserved for land acquisition. Land acquisition opportunities were not realized beyond those which were funded from the Capital Projects fund. This results in actual General Fund expenses being lower than budgeted by this amount.

(See independent auditor's report)

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets. Below is a comparative summary of District's capital assets. The District's financial statements present capital assets in two groups: those assets subject to depreciation, such buildings and improvements, equipment and vehicles, and those assets not subject to depreciation such as land and construction-in-progress.

McHenry County Conservation District's- Capital Assets (Net of Depreciation)

	2006	2005
Capital assets, not being depreciated:		
Land	\$ 119,201,183	\$ 112,186,975
Projects in Progress	1,096,979	896,589
Total capital assets, not depreciated	120,298,162	113,083,564
Capital assets, being depreciated (net):		
Land Improvements and Roads	6,936,295	6,361,223
Building and Improvements	4,142,983	4,398,373
Furniture & Equipment	437,135	492,384
Vehicles	256,590	280,393
Total capital assets, depreciated	11,773,003	11,532,373
Governmental activities capital assets, net	\$ 132,071,165	\$ 124,615,937

The District's investment in capital assets for governmental activities, net of accumulated depreciation at March 31, 2006, totals \$132,071,165. This is an increase of \$7,455,228 over the prior year. This investment includes land, land improvements (both completed and in progress), roads and improvements, buildings, vehicles, and furniture and equipment.

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

- \$2.8 million dollars were invested to acquire 393 acres of open space. This brings the total District owned lands to 20,021 acres as of March 31st, 2006.
- The District acquired a 129.44 acre parcel valued at \$4,000,000 through a donation.
- The following major site developments and improvements were completed:
 - \$340,000 dollars were invested to complete a 3.5 mile hiking and biking trail between the cities of Union and Marengo.
 - \$170,000 dollars were invested to complete and open the Pleasant Valley Conservation area. The site includes an entrance drive, parking areas, shelters, restrooms, a natural amphitheatre, trail system and fishing pond.
 - \$120,000 dollars were invested in the replacement and upgrade of restrooms at three sites.
- Approximately \$6.4 million dollars of bond proceeds remain in the Capital Projects fund which is available for the future acquisition of land and improvements.

(See independent auditor's report)

Long-term Debt. At the end of the fiscal year the District had total bonded debt outstanding of \$85,890,000. This is a decrease of \$2,630,000 from the prior year. As noted earlier, the District's debt service is funded from a property tax levy which ensures the continued and timely retirement of debt. The District did not issue any 'new money' bonds during the current fiscal year. The District carried a double "A" rating from both Standard & Poor's and Moody's Ratings Services as of March 31, 2005.

As of December 31st, 2005, the Equalized Assessed Valuation of the District was \$8,564,661,998. This represents an 11.1% increase from the same date of the previous year. This has increased the District's available Debt limit by referendum from \$44.4 million during the previous year to \$61.9 million as of March 31, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The average unemployment rate for the District's property tax base (McHenry County) for the current fiscal year was 5.1%. This is the third consecutive year that the county has experienced a decline in the unemployment rate. It is also lower than the state average unemployment rate of 5.7% for the current fiscal year.
- The population of McHenry County continues to grow steadily. The North East Planning Commission estimates the population at 303,990 as of July 2005. This is an increase of 2.5% over the prior years census of 296,389. This helps to ensure both a continued need for the District's sites and programs and a steady base to support them.
- The population growth has supported, and will likely continue to, sustain a rise in the Equalized Assessed Valuation of the District. Over the last 5 years the annual average EAV growth rate has been almost 10%.

All of these factors were considered in preparing the District's budget for the 2007 fiscal year. The District has appropriated \$269,630 of unreserved fund balance to be spent in during the next budget cycle.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. We encourage all citizens to read the audited financial statements and believe that the new reporting format will inform our fellow citizens of the progress they have made toward "meaningful open space" in McHenry County, our home. If you have questions about this report or need additional financial information, contact the McHenry County Conservation District at 18410 U.S. Highway 14, Woodstock, Illinois 60098.

(See independent auditor's report)

MCHENRY COUNTY CONSERVATION DISTRICT

STATEMENT OF NET ASSETS

March 31, 2006

ASSETS

Cash and cash equivalents	\$ 21,021,107
Short-term investment	152,320
Property taxes receivable	12,633,745
Other receivable	31,044
Due from other governmental units	2,683,396
Prepaid expenses	6,428
Deferred charges	535,491
Capital assets	
Non-depreciable	120,298,162
Depreciable, net of accumulated depreciation	<u>11,773,003</u>
Total assets	<u>169,134,696</u>

LIABILITIES

Accounts payable	186,208
Accrued liabilities	218,419
Interest payable	688,493
Deferred revenue	14,658,769
Noncurrent liabilities	
Due within one year	2,996,376
Due in more than one year	<u>82,679,015</u>
Total liabilities	<u>101,427,280</u>

NET ASSETS

Invested in capital assets, net of related debt	52,591,046
Restricted for	
Tort liability	130,073
Scholarships	13,495
Land improvement - Boger property	88,527
Land acquisition and site improvements	10,720,322
Debt service	583,238
Unrestricted	<u>3,580,715</u>
TOTAL NET ASSETS	<u>\$ 67,707,416</u>

See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
PRIMARY GOVERNMENT					
Governmental Activities					
General government	\$ 1,277,582	\$ 674,056	\$ -	\$ -	\$ (603,526)
Educational services	642,539	24,792	3,910	-	(613,837)
Police and safety services	760,928	-	3,969	-	(756,959)
Land facilities and management	2,013,777	-	-	-	(2,013,777)
Natural resources management	777,180	-	19,209	102,935	(655,036)
Wildlife resources	164,261	-	-	-	(164,261)
Planning and development	247,529	-	-	-	(247,529)
Communications	305,399	-	-	-	(305,399)
Land development and acquisition	717,991	-	-	623,852	(94,139)
Trail of history	47,464	48,193	-	-	729
Kishwaukee ecosystem project	108,808	-	-	-	(108,808)
Pipeline agreement	-	-	-	-	-
Boger project	9,555	-	-	-	(9,555)
Research field station	113,959	-	-	-	(113,959)
Interest on long-term debt	4,073,667	-	-	-	(4,073,667)
Total governmental activities	\$ 11,260,639	\$ 747,041	\$ 27,088	\$ 726,787	(9,759,723)
General Revenues					
Taxes					
Property					12,146,911
Replacement					165,643
Investment income					863,241
Contributions					4,001,643
Miscellaneous					12,142
Gain (loss) on disposal of capital assets					28,335
Total					17,217,915
CHANGE IN NET ASSETS					7,458,192
NET ASSETS, APRIL 1					70,247,355
Prior period adjustment					(9,998,131)
NET ASSETS, APRIL 1, RESTATED					60,249,224
NET ASSETS, MARCH 31					\$ 67,707,416

See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

March 31, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental
ASSETS					
Cash and cash equivalents	\$ 14,592,809 *	\$ -	\$ 6,428,298	\$ -	\$ 21,021,107
Short-term investment	152,320	-	-	-	152,320
Property taxes receivable	5,731,826	6,706,902	-	-	12,633,745
Other receivable	31,044	-	-	195,017	31,044
Prepaid items	6,428	-	-	-	6,428
Due from other governmental units	2,683,396	-	-	-	2,683,396
Due from other funds	547	583,238	-	165,560	749,345
TOTAL ASSETS	\$ 23,198,370	\$ 7,290,140	\$ 6,428,298	\$ 360,577	\$ 37,277,385
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 132,851	-	\$ 17,870	\$ 35,487	\$ 186,208
Accrued liabilities	218,419	-	-	-	218,419
Due to other funds	748,798	-	547	-	749,345
Other deferred revenue	2,025,024	-	-	-	2,025,024
Deferred revenue - property taxes	5,731,826	6,706,902	-	195,017	12,633,745
Total liabilities	8,856,918	6,706,902	18,417	230,504	15,812,741
FUND BALANCES					
Reserved					
Debt service	-	583,238	-	-	583,238
Tort liability	-	-	-	130,073	130,073
Scholarships	13,495	-	-	-	13,495
Land improvement - Boger property	88,527	-	-	-	88,527
Land acquisition and site improvements	10,720,322	-	6,409,881	-	17,130,203
Unreserved					
General Fund	3,519,108	-	-	-	3,519,108
Special Revenue Fund	-	-	-	-	-
Capital Projects Fund	-	-	-	-	-
Total fund balances	14,341,452	583,238	6,409,881	130,073	21,464,644
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,198,370	\$ 7,290,140	\$ 6,428,298	\$ 360,577	\$ 37,277,385

See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS

March 31, 2006

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 21,464,644
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	132,071,165
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Deferred charges for bond issuance cost are not reported in the governmental funds	535,491
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
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Bonds payable	(85,890,000)
Unamortized loss of refunding	674,007
Compensated absences	(459,398)
Interest payable	<u>(688,493)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 67,707,416</u>
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See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended March 31, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental
REVENUES					
Taxes					
Property	\$ 5,381,543	\$ 6,565,482	\$ -	\$ 199,886	\$ 12,146,911
Intergovernmental revenue	919,518	-	-	-	919,518
Rental income	593,547	-	-	-	593,547
Interest	458,839	88,099	316,303	-	863,241
Miscellaneous	167,279	-	-	-	167,279
Total revenues	7,520,726	6,653,581	316,303	199,886	14,690,496
EXPENDITURES					
General government	1,043,197	2,594	-	177,989	1,223,780
Educational services	573,824	-	-	-	573,824
Police and safety services	698,817	-	-	-	698,817
Land facilities and management	1,750,245	-	-	-	1,750,245
Natural resources management	812,640	-	-	-	812,640
Wildlife resources	152,957	-	-	-	152,957
Planning and development	179,112	-	-	-	179,112
Communications	306,230	-	-	-	306,230
Land development and acquisition	-	-	3,932,599	-	3,932,599
Trail of history	47,464	-	-	-	47,464
Boger project	9,555	-	-	-	9,555
Research field station	108,489	-	-	-	108,489
Debt service					
Principal retirement	-	2,630,000	-	-	2,630,000
Interest	-	3,925,440	-	-	3,925,440
Fiscal agent fees	-	523	-	-	523
Capital outlay	731,847	-	-	-	731,847
Total expenditures	6,414,377	6,558,557	3,932,599	177,989	17,083,522
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,106,349	95,024	(3,616,296)	21,897	(2,393,026)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	32,509	-	-	-	32,509
Total other financing sources (uses)	32,509	-	-	-	32,509
NET CHANGE IN FUND BALANCES	1,138,858	95,024	(3,616,296)	21,897	(2,360,517)
FUND BALANCES, APRIL 1	8,549,766	488,214	10,376,240	108,176	19,522,396
Prior period adjustment	4,652,828	-	(350,063)	-	4,302,765
FUND BALANCES, APRIL 1, RESTATED	13,202,594	488,214	10,026,177	108,176	23,825,161
FUND BALANCES, MARCH 31	\$ 14,341,452	\$ 583,238	\$ 6,409,881	\$ 130,073	\$ 21,464,644

See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (2,360,517)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.	4,507,848
The effect of various transactions involving capital assets (i.e. sales) is to decrease net assets.	(4,174)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	4,000,000
The repayment of long-term debt is reported as an expenditure when due in governmental funds but as a reduction of principal outstanding in the statement of activities.	2,630,000
Changes in interest payable are reported only in the statement of activities.	(34,253)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(113,451)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in compensated absences	(118,815)
Depreciation	(1,048,446)
CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 7,458,192</u>

See accompanying notes to financial statements.

MCHENRY COUNTY CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McHenry County Conservation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

a. Reporting Entity

The District was established by the voters of McHenry County in 1971. Its purpose, as defined, by the state statutes, is to acquire and maintain land as open space for preservation, education, and recreation. The District is governed by a seven-member board of trustees who are appointed by the McHenry County Board. The District has authority to levy taxes and receives federal and state grants for land acquisition and development.

In evaluating how to define the reporting entity, management has considered all potential component units as required by generally accepted accounting principles. The decision to include a potential component unit in the reporting entity was made based upon the significance of their operational or financial relationships with the District. The District has determined there are no component units required to be reported in the District's financial statements. This District is considered by McHenry County to be a component unit of the County and is included in the financial statements of McHenry County.

b. Fund Accounting

The accounts of the District are organized and operated on the basis of funds. Funds are independent fiscal and accounting entities with self-balancing sets of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. A minimum number of funds are maintained for this purpose.

The following fund categories are used by the District:

Governmental Funds are used to account for the District's general activities. The General Fund is the primary operating fund; accounting for all financial resources not required to be accounted for in another fund. Special Revenue Funds account for revenue sources that are legally restricted for specific purposes (except for Capital Projects Funds). The Debt Service Fund accounts for the servicing of general long-term debt. Capital Projects Funds account for the acquisition of capital assets or construction of major capital projects not financed by another fund.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of material interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Special items are significant transactions within the control of management that are either unusual in nature or infrequent in occurrence.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the payment of principal and interest on the District's bonds, funded by an annual property tax levy.

The Capital Projects Fund is used to account for financial resources including bond proceeds to be used for the acquisition or construction of major capital facilities other than those financed by proprietary, special assessment, or trust funds.

The District reports the following nonmajor governmental fund:

The Special Revenue Fund is used to account for the collection and disbursement of earmarked monies for a particular purpose. The District's only Special Revenue Fund is the Insurance Fund.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The District reports deferred revenue on its financial statements. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period, under the modified accrual basis of accounting, or is measurable but not earned under the accrual basis of accounting. Deferred revenues also arise when resources are received by the District before it has a legal claim to them or prior to the provision of services, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the financial statements and revenue is recognized.

e. Investments

Investments with a maturity of less than one year when purchased and non-negotiable certificates of deposit are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is based on prices listed on national exchanges as of March 31 for debt and equity securities. Mutual funds, investment funds, and insurance separate accounts are valued at contract value as of March 31.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

g. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items/expenses.

h. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., bike trails, paths, roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20
Land improvements	15
Roads	40
Furniture and equipment	5-10
Office equipment	5
Vehicles	5

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Compensated Absences

District employees accumulate vacation and sick leave hours for subsequent use or payment upon termination, death, or retirement. Earned vacation pay up to a maximum of 30 working days and a percentage (based on length of employment) of sick leave may be paid upon termination of employment.

Vested or accumulated vacation and sick leave are reported as expenditures and a fund liability of the governmental fund that will pay it once retirement or separation has occurred. Vested or accumulated vacation and sick leave of governmental activities are recorded as an expense and liability as the benefits accrue to employees.

j. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs and gains (losses) on refundings, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and gains (losses) on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

k. Net Assets/Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, restricted net assets are legally restricted by outside parties for a specific purpose. Invested in capital assets, net of related debt, represents the book value of capital assets less any long-term debt principal outstanding issued to construct or acquire capital assets.

**MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes on the District's financial position and operations. Such information is presented in a summarized comparative format and should be read in conjunction with the District's financial statements for the year ended March 31, 2005, from which the information was summarized.

2. DEPOSITS AND INVESTMENTS

The District's investment policy authorizes the District to invest in obligations issued by the United States Government, investments constituting direct obligations of any bank, short-term commercial paper of U.S. corporations with assets exceeding \$500 million, short-term obligations issued by the Federal National Mortgage Association, shares or other securities issued by savings and loan associations, share accounts of credit unions chartered in the United States with its principal office located in Illinois, and securities issued by Illinois Funds.

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price for which the investment could be sold.

It is the policy of the District to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objectives of the policy, in order of priority are; legality, safety (preservation of capital and protection of investment principal), liquidity and yield. The Board of Trustee's policy requires collateralization at 105% of the aggregate balance of principal and accrued interest on deposits in financial institutions.

a. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District's investment policy requires pledging of collateral in the name of the District.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

b. Investments

The District had no investments in debt securities as of March 31, 2006. The District's investment in Illinois Funds at March 31, 2006 totaled \$15,848,527.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed with a budgetary or economic cycle. The investment policy does not strictly limit the maximum maturity lengths of investments.

Credit risk is the risk that the issuer of a debt security will not pay its par value upon maturity. The District limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in Illinois Funds.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the District will not be able to recover the value of its investments that are in possession of an outside party. Illinois Funds are not subject to custodial credit risk.

Concentration of credit risk is the risk that the District has a high percentage of its investments invested in one type of investment. The District's investment policy requires diversification of investments to avoid unreasonable risk. At March 31, 2006, the District had greater than five percent of its overall portfolio invested in the Illinois Funds. This is in accordance with the District's investment policy.

3. RECEIVABLES

a. Property Taxes

Property taxes for 2005 attach as an enforceable lien on January 1, 2005 on property values assessed as of the same date. Taxes are levied by December of the subsequent year (by passage of Tax Levy Ordinance). Tax bills are prepared by the County and issued on or about May 1, 2006 and August 1, 2006 and are payable in two installments, on or about June 1, 2006 and September 1, 2006. The County collects such taxes and remits them periodically. The allowance for uncollectible taxes has been stated at 1% of the tax levy, to reflect actual collection experience. Since the 2005 levy is intended to fund the 2007 fiscal year, the levy has been recorded as a receivable and deferred revenue.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

3. RECEIVABLES (Continued)

a. Property Taxes (Continued)

The 2006 tax levy, which attached as an enforceable lien on property as of January 1, 2006, has not been recorded as a receivable as of March 31, 2006 as the tax has not yet been levied by the District and will not be levied until December 2006, and, therefore, the levy is not measurable at March 31, 2006.

b. Due From Other Governments

Due from other governments for the year ended March 31, 2006, was as follows:

State tax receivable	\$ 32,830
Grants receivable	2,632,566
Due from other governmental agencies	<u>18,000</u>
TOTAL	<u>\$ 2,683,396</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006, was as follows:

	Balances April 1	Increases	Decreases	Balances March 31
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 112,186,975	\$ 7,014,208	\$ -	\$ 119,201,183
Construction in progress	896,589	583,779	383,389	1,096,979
Total capital assets not being depreciated	<u>113,083,564</u>	<u>7,597,987</u>	<u>383,389</u>	<u>120,298,162</u>
Capital assets being depreciated				
Land improvements and roads	11,466,648	1,123,188	-	12,589,836
Buildings and improvements	6,642,940	-	-	6,642,940
Furniture and equipment	1,048,767	35,549	32,850	1,051,466
Office equipment	90,064	15,111	-	105,175
Vehicles	1,273,839	119,402	39,175	1,354,066
Total capital assets being depreciated	<u>20,522,258</u>	<u>1,293,250</u>	<u>72,025</u>	<u>21,743,483</u>
Less accumulated depreciation for				
Land improvements and roads	5,105,425	548,116	-	5,653,541
Buildings and improvements	2,244,567	255,390	-	2,499,957
Furniture and equipment	632,347	87,001	32,850	686,498
Office equipment	14,100	18,908	-	33,008
Vehicles	993,446	139,031	35,001	1,097,476
Total accumulated depreciation	<u>8,989,885</u>	<u>1,048,446</u>	<u>67,851</u>	<u>9,970,480</u>
Total capital assets being depreciated, net	<u>11,532,373</u>	<u>244,804</u>	<u>4,174</u>	<u>11,773,003</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 124,615,937</u>	<u>\$ 7,842,791</u>	<u>\$ 387,563</u>	<u>\$ 132,071,165</u>

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

4. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

General government	\$ 12,212
Educational services	44,177
Police and safety services	42,785
Land facilities and management	146,248
Natural resources	89,849
Wildlife resources	4,660
Planning and development	548,270
Communications	-
Research field stations	3,597
Land acquisition	156,648

TOTAL	<u>\$1,048,446</u>
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5. RISK MANAGEMENT

The District is exposed to various risks of loss related torts; theft of, or damage to, and destruction of assets; errors and omissions, injuries to employees; employee health, and natural disasters. The District purchases commercial insurance to cover these risks. The policies call for various levels of deductibles. During the fiscal year 2006 there was no significant reduction in insurance coverage for any category. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. LONG-TERM DEBT

a. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund general obligation bonds.

**MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

6. LONG-TERM DEBT (Continued)

b. Changes in Long-Term Liabilities

The following is a summary of changes in long-term debt for the year ended March 31, 2006:

	Debt Retired By	Balances April 1	Additions	Reductions	Balances March 31	Current Portion March 31
GOVERNMENTAL ACTIVITIES						
\$20,330,000 General Obligation Bonds, Series 1998A, dated July 1, 1998, due in annual installments ranging from \$115,000 to \$1,785,000, interest is due semi-annually at rates from 4.7% to 5.5%. The final payment is due February 1, 2018.	Debt Service	\$ 7,855,000	\$ -	\$ 135,000	\$ 7,720,000	\$ 115,000
\$68,500,000 General Obligation Bonds, Series 2001A, dated June 1, 2001, due in annual installments ranging from \$1,040,000 to \$2,470,000, interest is due semi-annually at rates from 4.250% to 5.625%, the final payment is due February 1, 2021.	Debt Service	10,330,000	-	1,040,000	9,290,000	1,285,000
\$12,335,000 General Obligation Limited Refunding Bonds, Series 2001B, dated June 1, 2001, due in annual installments ranging from \$150,000 to \$1,410,000, interest is due semi-annually at rates from 4.25% to 5.00%, the final payment is due February 1, 2016.	Debt Service	10,195,000	-	1,010,000	9,185,000	1,080,000
\$58,825,000 General Obligation Refunding Bonds, Series 2005A, dated March 10, 2005, due in annual installments ranging from \$135,000 to \$9,850,000, interest is due semi-annually at rates from 3.0% to 5.0%, the final payment is due February 1, 2021.	Debt Service	58,825,000	-	430,000	58,395,000	135,000

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM DEBT (Continued)

b. Changes in Long-Term Liabilities (Continued)

	Debt Retired By	Balances April 1	Additions	Reductions	Balances March 31	Current Portion March 31
<p>\$1,315,000 General Obligation Refunding Tax Bonds, Series 2005B, dated March 10, 2005, due in periodic installments ranging from \$5,000 to \$1,295,000, interest is due semi-annually at rates from 3.5% to 4.0%, the final payment is due February 1, 2014.</p>						
	Debt Service	\$ 1,315,000	\$ -	\$ 15,000	\$ 1,300,000	\$ -
Total bonds		88,520,000	-	2,630,000	85,890,000	2,615,000
Unamortized loss on refunding		(750,667)	-	(76,660)	(674,007)	(78,022)
Total debt service fund bonds		87,769,333	-	2,553,340	85,215,993	2,536,978
Compensated absences	General	340,583	459,398	340,583	459,398	459,398
TOTAL GOVERNMENTAL ACTIVITIES		\$ 88,109,916	\$ 459,398	\$ 2,893,923	\$ 85,675,391	\$ 2,995,376

c. Debt Service Requirements to Maturity

Debt service requirements to maturity are as follows:

Governmental Activities:

Fiscal Year Ending March 31	Total General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 2,615,000	\$ 4,130,955	\$ 6,745,955
2008	2,935,000	4,020,988	6,955,988
2009	3,285,000	3,890,773	7,175,773
2010	3,655,000	3,744,135	7,399,135
2011	4,045,000	3,580,485	7,625,485
2012	4,470,000	3,389,935	7,859,935
2013	4,915,000	3,196,235	8,111,235
2014	5,415,000	2,943,510	8,358,510
2015	5,940,000	2,684,735	8,624,735
2016	6,510,000	2,383,910	8,893,910
2017	7,110,000	2,054,385	9,164,385
2018	7,690,000	1,754,213	9,444,213
2019	8,370,000	1,365,250	9,735,250
2020	9,085,000	946,750	10,031,750
2021	9,850,000	492,500	10,342,500
TOTAL	\$ 85,890,000	\$ 40,578,759	\$ 126,468,759

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM DEBT (Continued)

d. Advance Refunding of Debt

In prior years, the District advance refunded bonded debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on previously refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements.

At March 31, 2006, a total of \$66,330,000 of defeased debt is still outstanding.

e. Legal Debt Margin

The schedule of the District's legal debt margin as of March 31, 2006 is as follows:

ASSESSED VALUATION - 2005 (Latest Information Available)	\$ 8,564,661,998
Statutory Debt Limitation (1.725% of Assessed Valuation)	\$ 147,740,419
Less General Obligation Bonds	<u>85,890,000</u>
LEGAL DEBT MARGIN	<u>\$ 61,850,419</u>

7. EMPLOYEE RETIREMENT SYSTEMS

a. Plan Description

Illinois Municipal Retirement Fund

The District contributes to one defined benefit pension plan: the Illinois Municipal Retirement Fund (IMRF), an agent-multiple-employer public employee retirement system. The benefits, benefit levels, employee contributions and employer contributions for all plans are governed by Illinois Compiled Statutes and can only be amended by the Illinois General Assembly. The IMRF does not issue a separate report. However, IMRF does issue a publicly available report that includes financial statements and supplementary information for the plan as a whole, but not for individual employers. That report can be obtained from IMRF, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

All employees hired in positions that meet or exceed the prescribed annual hourly standard must be enrolled in IMRF as participating members. Pension benefits vest after eight years of service. Participating members who retire at or after age 60 with eight years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1 2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2.00% for each year thereafter. IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute. Participating members are required to contribute 4.5% of their annual salary to IMRF. The District is required to contribute the remaining amounts necessary to fund the IMRF as specified by statute. The employer contribution rate for the calendar year ended 2005 was 10.67% of covered payroll.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

b. Annual Pension Cost

Employer contributions have been determined as follows:

	<u>Illinois Municipal Retirement</u>
Actuarial Valuation Date	December 31, 2003
Actuarial Cost Method	Entry-Age Normal
Asset Valuation Method	5 Year Smoothed Market
Amortization Method	Level Percentage of Payroll
Amortization Period	31 Years, Closed
Significant Actuarial Assumptions	
a) Rate of Return on Present and Future Assets	7.50% Compounded Annually
b) Projected Salary Increase Attributable to Inflation	4.00% Compounded Annually
c) Additional Projected Salary Increases - Seniority/Merit	.40 to 11.60%

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

b. Annual Pension Cost (Continued)

Employer annual pension costs (APC), actual contributions and the net pension obligation (asset) (NPO) are as follows. The NPO is the cumulative difference between the APC and the contributions actually made.

	For Calendar Year	Illinois Municipal Retirement
Annual Pension Cost (APC)	2003	\$ 245,697
	2004	270,793
	2005	314,640
Actual Contribution	2003	\$ 245,697
	2004	270,793
	2005	314,640
Percentage of APC Contributed	2003	100.00%
	2004	100.00
	2005	100.00
NPO (Asset)	2003	\$ -
	2004	-
	2005	-

8. RESERVED FUND BALANCE

The District received a \$5,000 donation from Smith Engineering. The donation and the interest earned from the donation are intended for a scholarship program in which the interest earned will be distributed to an eligible recipient. The District sets up the criteria for the scholarships, selects a recipient, and awards the scholarships. The General Fund fund balance includes \$13,495, reserved for future scholarships.

The District received a \$103,687 donation from the Fred Boger Estate. The donation and interest earned from the donation are to be used to improve and preserve Boger property owned by the District. The General Fund fund balance included \$88,527, reserved for future improvements and preservation of this property.

The District has recorded \$10,720,322 of Grant Recoveries. These funds are to be used for future land acquisitions and site improvements. The General Fund fund balance includes this amount as a reserve for land acquisitions and site improvements.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

9. INTERFUND ACTIVITY

Amounts Due To/From Other Funds at March 31, 2006 consist of the following:

Receivable Fund	Payable Fund	Amount
Nonmajor Special Revenue	General	\$ 165,560
Debt Service	General	583,238
General	Capital Projects	547
		<u>\$ 749,345</u>

The purpose of the significant amounts due is as follows:

\$165,560 due to the nonmajor special revenue fund from the general fund represents savings realized when the District changed insurance carriers.

\$583,238 due to the debt service fund from the general fund represents refunding proceeds and tax revenue to be applied to future debt repayments.

10. CONTINGENT LIABILITIES

a. Litigation

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

b. Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

11. RECLASSIFICATIONS

Certain reclassifications of fiscal year 2005 balances have been made to conform to the fiscal year 2006 presentation.

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

12. PRIOR PERIOD ADJUSTMENTS

The District has restated fund balances/net assets as of April 1, 2005 as follows:

	Governmental Activities	General Fund	Capital Projects
FUND BALANCES/NET ASSETS, APRIL 1 (as previously reported)	\$ 70,247,355	\$ 8,549,766	\$ 10,376,240
RESTATEMENTS			
a) Recognize property tax revenue in the proper period	(12,053,018)	-	-
b) Recognize expenditures in the proper period	-	(70,487)	-
c) Correct reporting of compensated absences	-	340,583	-
d) Recognize grant revenue in the proper period	2,054,887	4,032,669	-
e) Correct interfund balances	-	350,063	(350,063)
Subtotal	(9,998,131)	4,652,828	(350,603)
FUND BALANCES/NET ASSETS, APRIL 1, RESTATED	\$ 60,249,224	\$ 13,202,594	\$ 10,026,177

REQUIRED SUPPLEMENTARY INFORMATION

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
REVENUES		
Taxes		
Property taxes, net	\$ 5,393,884	\$ 5,381,543
Intergovernmental		
Federal and State of Illinois		
State replacement taxes	115,000	165,643
Grants	4,271,242	753,875
Receipts from use of facilities		
Rental income	570,154	593,547
Interest	211,373	458,839
Miscellaneous	325,419	167,279
Total revenues	<u>10,887,072</u>	<u>7,520,726</u>
EXPENDITURES		
Current		
General government	1,249,179	1,043,197
Educational services	632,703	573,824
Police and safety services	740,291	698,817
Land facilities and management	1,727,159	1,750,245
Natural resources management	901,200	812,640
Wildlife resources	156,950	152,957
Planning and development	204,055	179,112
Communications	367,611	306,230
Trail of History	52,250	47,464
Kloempken natural areas	4,000	-
Land acquisition costs	7,057,463	-
Boger project	100,000	9,555
Research field station	140,096	108,489
Capital outlay	<u>1,295,671</u>	<u>731,847</u>
Total expenditures	<u>14,628,628</u>	<u>6,414,377</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,741,556)</u>	<u>1,106,349</u>
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	-	32,509
NET CHANGE IN FUND BALANCE	<u>\$ (3,741,556)</u>	<u>1,138,858</u>
FUND BALANCE, APRIL 1		8,549,766
Prior period adjustment		<u>4,652,828</u>
FUND BALANCE, APRIL 1, RESTATED		<u>13,202,594</u>
FUND BALANCE, MARCH 31		<u>\$ 14,341,452</u>

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

SCHEDULE OF FUNDING PROGRESS

ILLINOIS MUNICIPAL RETIREMENT FUND

March 31, 2006

Actuarial Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age Normal	Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability UAAL (OAAL) (2) - (1)	(5) Covered Payroll	UAAL As a Percentage of Covered Payroll (4) / (5)
2000	\$ 1,246,214	\$ 1,959,916	63.59%	\$ 713,702	\$ 1,830,668	38.99%
2001	1,579,222	2,367,171	66.71%	787,949	1,997,873	39.44%
2002	1,897,867	2,820,714	67.28%	922,847	2,150,203	42.92%
2003	2,094,537	3,179,461	65.88%	1,084,924	2,357,941	46.01%
2004	2,514,944	3,716,034	67.68%	1,201,090	2,540,270	47.28%
2005	3,020,937	4,511,798	66.96%	1,490,861	2,948,830	50.56%

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

SCHEDULE OF EMPLOYER CONTRIBUTIONS

ILLINOIS MUNICIPAL RETIREMENT FUND

March 31, 2006

<u>Calendar Year</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
2000	\$ 199,177	\$ 199,177	100%
2001	211,775	211,775	100%
2002	222,546	222,546	100%
2003	245,697	245,697	100%
2004	270,793	270,793	100%
2005	314,640	314,640	100%

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

March 31, 2006

BUDGETS

Budgets are adopted on a basis consistent with the modified accrual basis of accounting used for governmental funds. Annual appropriations are adopted within the first quarter of each fiscal year for the General, Special Revenue, Capital Projects, and Debt Service Fund. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund and department. Management may make transfers of appropriations between departments within the same fund. Transfers of appropriations between funds require the approval of the governing board. There were no budget amendments during the fiscal year.



COMBINING AND INDIVIDUAL FUND SCHEDULES



MAJOR GOVERNMENTAL FUNDS

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF REVENUES - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
REVENUES		
Taxes		
Property taxes, net	\$ 5,393,884	\$ 5,381,543
Intergovernmental		
State replacement taxes	115,000	165,643
Grants	4,271,242	753,875
Receipts from use of facilities		
Rental income	570,154	593,547
Interest	211,373	458,839
Miscellaneous	325,419	167,279
TOTAL REVENUES	\$ 10,887,072	\$ 7,520,726

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
General Government		
Personnel		
Salaries	\$ 704,645	\$ 554,391
Health insurance	69,901	71,366
Retirement contribution	64,622	59,456
Social Security contribution	39,811	37,899
Life insurance	1,476	1,455
Employee mileage reimbursement	1,880	1,869
Total personnel	882,335	726,436
Contractual services		
Printing	8,870	3,055
Postage	9,400	7,536
Dues, subscriptions, and memberships	10,950	8,785
Audits	17,000	27,715
Appraisals and surveys	8,100	4,470
Legal services	90,000	121,181
Legal notices	9,410	6,044
Hunting program	-	294
Real estate tax	76,420	53,098
Travel/meeting expense	17,607	9,262
Trustee expenses	5,017	4,129
Special events, meetings, and dedications	6,440	6,231
Office equipment, rental, and maintenance	22,333	14,947
Employee physical exams	2,050	1,644
Contractual services	46,700	31,511
Total contractual services	330,297	299,902
Commodities		
Office supplies	6,610	5,175
Computer supplies	26,312	9,315
Uniforms	3,625	2,369
Total commodities	36,547	16,859
Total general government	1,249,179	1,043,197

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Educational services		
Personnel		
Salaries	\$ 390,473	\$ 387,383
Health insurance	75,818	68,782
Retirement contribution	34,245	34,712
Social Security contribution	29,144	26,837
Life insurance	1,053	1,070
Total personnel	530,733	518,784
Contractual services		
Printing	5,405	4,026
Postage	2,500	2,550
Dues and subscriptions	720	555
School services	26,327	9,700
Workshops and programs	25,480	21,454
Travel/meeting expense	6,350	4,011
Contractual services	19,000	1,880
Total contractual services	85,782	44,176
Commodities		
Materials and displays	6,375	2,565
Office supplies	4,757	4,281
A/V supplies	475	484
Library	1,815	1,451
Uniforms	2,766	2,083
Total commodities	16,188	10,864
Total educational services	632,703	573,824
Police and safety services		
Personnel		
Salaries	474,728	443,828
Health insurance	102,289	111,639
Retirement contribution	50,654	50,267
Social Security contribution	36,326	33,957
Life insurance	1,424	1,522
Employee mileage reimbursement	660	-
Total personnel	666,081	641,213

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Police and safety services (Continued)		
Contractual services		
Bike patrol expense	\$ 3,950	\$ 2,779
Employee expense	2,000	2,000
Communication equipment maintenance	10,750	6,482
Dues, subscriptions, and memberships	2,785	2,569
Safety training	4,600	4,687
Supplies	3,970	2,823
Travel/meeting expense	8,640	5,095
Contractual services	1,575	1,205
Total contractual services	38,270	27,640
Commodities		
Supplies	500	554
Leased equipment	1,100	1,075
Library	1,435	1,269
Security and safety equipment	7,095	6,204
Police uniforms and equipment	13,200	9,296
Police vehicle supplies	12,610	11,566
Total commodities	35,940	29,964
Total police and safety services	740,291	698,817
Land facilities and management		
Personnel		
Salaries	856,337	827,543
Health insurance	147,754	179,644
Retirement contribution	78,189	78,146
Social Security contribution	65,366	63,375
Life insurance	2,102	2,283
Employee mileage reimbursement	135	-
Total personnel	1,149,883	1,150,991
Contractual services		
Utilities - all facilities	156,000	180,955
Janitorial services	21,774	20,615
Waste disposal	15,000	16,794
Dues, subscriptions, and memberships	750	170
Building maintenance	88,550	59,283

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Land facilities and management (Continued)		
Contractual services (Continued)		
Travel/meeting expense	\$ 12,600	\$ 10,940
Contractual services	5,000	3,996
Road and bridge maintenance	17,800	7,032
Water and sewer maintenance	23,330	18,890
Fence and gate maintenance	5,000	1,401
Maintenance equipment rental	3,000	7,099
Maintenance equipment repair	9,000	11,224
Vehicle and trailer maintenance	37,875	43,855
License and inspection	1,400	975
Vehicle and trailer purchase	-	126
	<u>397,079</u>	<u>383,355</u>
Total contractual services		
Commodities		
Office supplies	1,000	790
Computer supplies	4,000	3,422
Site maintenance supplies	48,926	51,591
Shop tools	13,127	13,197
Uniforms	6,900	9,364
Supplies	6,754	2,923
Signs and display materials	2,300	5,782
Tables, grills, and trash cans	3,190	2,342
Gas, grease, and oil	94,000	126,488
	<u>180,197</u>	<u>215,899</u>
Total commodities		
Total land facilities and management	<u>1,727,159</u>	<u>1,750,245</u>
Natural resources management		
Personnel		
Salaries	472,791	413,212
Health insurance	69,305	82,745
Retirement contribution	54,009	53,914
Social Security contribution	38,087	40,652
Life insurance	1,075	1,232
	<u>635,267</u>	<u>591,755</u>
Total personnel		

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Natural resources management (Continued)		
Contractual services		
Resource management restoration projects	\$ 61,947	\$ 52,861
Resource management supplies and maintenance	60,580	61,933
Travel/meeting expense	14,250	7,364
Contractual services	11,600	7,887
Total contractual services	148,377	130,045
Commodities		
NRM safety supplies	7,300	5,874
Animal rearing and reintro supplies	8,775	7,912
Nursery plants and seeds	79,725	61,240
Supplies	11,389	7,094
Uniforms	6,747	6,174
Inventory and monitoring equipment	3,620	2,546
Total commodities	117,556	90,840
Total natural resources management	901,200	812,640
Wildlife resource		
Personnel		
Salaries	107,053	107,184
Health insurance	10,128	10,060
Retirement contribution	11,198	11,364
Social Security contribution	8,031	8,200
Life insurance	260	275
Employee mileage reimbursement	500	510
Total personnel	137,170	137,593
Contractual services		
Dues, subscriptions, and memberships	450	373
Travel/meeting expense	3,100	1,336
Total contractual services	3,550	1,709
Commodities		
Wildlife resource program supplies	4,380	1,986
Wildlife care and supplies	11,000	11,029
Uniforms	850	640
Total commodities	16,230	13,655
Total wildlife resource	156,950	152,957

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Planning and development		
Personnel		
Salaries	\$ 128,587	\$ 120,106
Health insurance	18,428	13,512
Retirement contribution	13,496	12,675
Social Security contribution	9,679	9,075
Life insurance	315	391
Employee mileage reimbursement	1,000	162
Total personnel	171,505	155,921
Contractual services		
Travel/meeting expense	4,000	4,728
Dues, subscriptions, and memberships	1,050	697
Contractual services	10,000	10,528
Total contractual services	15,050	15,953
Commodities		
Planning supplies	16,500	6,421
Uniforms	1,000	817
Total commodities	17,500	7,238
Total planning and development	204,055	179,112
Communications		
Personnel		
Salaries	128,984	115,549
Health insurance	23,884	16,520
Retirement contribution	13,282	11,971
Social Security contribution	9,525	8,765
Life insurance	400	375
Employee mileage reimbursement	900	956
Employee relations	-	78
Total personnel	176,975	154,214
Contractual services		
Printing	36,000	23,421
Promotions and public relations	42,500	37,954
Newsletter and postage	57,900	43,925
Travel/meeting expense	3,300	1,331

(This schedule is continued on the following pages.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Communications (Continued)		
Contractual services (Continued)		
Special events, meetings, and dedications	\$ 13,450	\$ 13,653
Dues, subscriptions, and memberships	2,000	964
Courtesies	1,500	1,363
Volunteer and committee expense	10,800	11,064
Contractual services	15,250	12,324
Total contractual services	182,700	145,999
Commodities		
A/V supplies	3,936	2,440
Office supplies	1,200	1,364
Uniforms	1,050	679
Materials and displays	1,750	1,534
Total commodities	7,936	6,017
Total communications	367,611	306,230
Trail of History	52,250	47,464
Kloempken natural areas	4,000	-
Land acquisition costs	7,057,463	-
Boger project	100,000	9,555
Research field station		
Personnel		
Salaries	77,488	51,059
Health insurance	12,563	14,992
Retirement contribution	6,712	6,757
Social security contribution	5,466	6,360
Life insurance	167	162
Total personnel	102,396	79,330
Contractual services		
Travel/meeting expense	3,000	1,243
Contractual services	2,700	2,200
Building repair and remodeling	900	-
Total contractual services	6,600	3,443

(This schedule is continued on the following page.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)

GENERAL FUND

For the Year Ended March 31, 2006

	Original and Final Budget	Actual
Research field station (Continued)		
Commodities		
Supplies	\$ 31,100	\$ 25,716
Total research field station	<u>140,096</u>	<u>108,489</u>
Capital outlay		
Administration		
Office furniture and equipment	126,058	30,180
Land acquisitions and site improvements	-	166
Working capital allowance	62,538	-
Educational services		
Office furniture and equipment	1,225	1,098
Police and safety services		
Communication equipment	64,000	62,665
Land and facilities management		
Maintenance and equipment purchase	180,700	82,774
Road and bridge infrastructure	122,660	130,096
Vehicle and trailer	31,000	33,716
Gas, grease, and oil	85,894	25,483
Natural resource management		
Equipment	32,500	29,433
Building improvements	15,000	18,240
Planning and development		
Office furniture and equipment	6,000	6,000
Site Improvements	120,000	114,761
Communication		
Office furniture and equipment	450	350
Kishwaukee ecosystem project	447,646	196,885
Total capital outlay	<u>1,295,671</u>	<u>731,847</u>
TOTAL EXPENDITURES	<u>\$ 14,628,628</u>	<u>\$ 6,414,377</u>

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND

For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual
REVENUES			
Property taxes, net	\$ 6,580,537	\$ 6,580,537	\$ 6,565,482
Investment income	57,580	57,580	88,099
Total revenues	6,638,117	6,638,117	6,653,581
EXPENDITURES			
Debt service			
Principal retirement	2,630,000	2,630,000	2,630,000
Interest	3,925,440	3,925,440	3,925,440
Administrative fees	4,500	4,500	2,594
Bond issue costs	-	-	523
Total expenditures	6,559,940	6,559,940	6,558,557
NET CHANGE IN FUND BALANCE	\$ 78,177	\$ 78,177	95,024
FUND BALANCE, APRIL 1			488,214
FUND BALANCE, MARCH 31			\$ 583,238

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual
REVENUES			
Investment income	\$ 63,000	\$ 63,000	\$ 316,303
Total revenues	63,000	63,000	316,303
EXPENDITURES			
Other expenditures	190,500	190,500	184,768
Land and land improvements	9,697,610	9,697,610	3,747,831
Total expenditures	9,888,110	9,888,110	3,932,599
NET CHANGE IN FUND BALANCE	\$ (9,825,110)	\$ (9,825,110)	(3,616,296)
FUND BALANCE, APRIL 1			10,376,240
Prior period adjustment			(350,063)
FUND BALANCE, APRIL 1, RESTATED			10,026,177
FUND BALANCE, MARCH 31			\$ 6,409,881

(See independent auditor's report.)

NONMAJOR GOVERNMENTAL FUNDS

MCHENRY COUNTY CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

INSURANCE FUND

For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual
REVENUES			
Property taxes, net	\$ 200,344	\$ 200,344	\$ 199,886
Total revenues	200,344	200,344	199,886
EXPENDITURES			
General government			
Contractual services			
Liability insurance	23,285	23,285	43,908
Commercial insurance	33,672	33,672	32,696
Vehicle insurance	20,000	20,000	-
Worker's compensation insurance	68,647	68,647	68,928
Unemployment insurance	32,108	32,108	32,457
Total expenditures	177,712	177,712	177,989
NET CHANGE IN FUND BALANCE	<u>\$ 22,632</u>	<u>\$ 22,632</u>	21,897
FUND BALANCE, APRIL 1			<u>108,176</u>
FUND BALANCE, MARCH 31			<u>\$ 130,073</u>

(See independent auditor's report.)

OTHER SUPPLEMENTAL INFORMATION - UNAUDITED

MCHENRY COUNTY CONSERVATION DISTRICT

DEBT SERVICE EXTENSION BASE

UNAUDITED

March 31, 2006

Levy Year	Debt Service Extension Base	Non-Referendum Debt Service	Non-Referendum Debt Service Extension Base Margin
2005	\$ 2,401,243	\$ 2,035,195	\$ 366,048
2006	2,401,243	2,033,890	367,353
2007	2,401,243	2,032,625	368,618
2008	2,401,243	2,033,500	367,743
2009	2,401,243	2,031,625	369,618
2010	2,401,243	2,033,825	367,418
2011	2,401,243	2,034,325	366,918
2012	2,401,243	744,025	1,657,218
2013	2,401,243	2,095,050	306,193
2014	2,401,243	2,034,725	366,518
2015	2,401,243	1,877,700	523,543
2016	2,401,243	1,878,713	522,530
		<u>\$ 22,865,198</u>	

Source: McHenry County Conservation District

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

EQUALIZED ASSESSED VALUATION

UNAUDITED

March 31, 2006

<u>Levy Year</u>	<u>Total Equalized Assessed Valuation</u>	<u>Percent Change</u>
2001	\$ 5,790,417,556	8.1%
2002	6,366,405,987	9.9%
2003	7,036,758,630	10.5%
2004	7,705,547,977	9.5%
2005	8,564,661,998	11.1%
Per Capita Equalized Assessed Value (1)		\$ 28,174

This table sets forth the Equalized Assessed Valuation of the District for the past five years.

(1) Based on the County's 2005 census estimated population of 303,990.

Source: U.S. Bureau of Census

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

TAX RATES PER \$100 EAV

UNAUDITED

March 31, 2006

Levy Year	General	(1)	Insurance	(2)	Bonded Debt	(2)	Total
2001	\$	0.0781	\$	0.0024	\$	0.1003	\$ 0.1808
2002		0.0743		0.0034		0.0957	0.1734
2003		0.0717		0.0032		0.0914	0.1663
2004		0.0704		0.0030		0.0854	0.1588
2005		0.0676		0.0023		0.0791	0.1490

This table sets forth the tax rates for the District for the past five years.

(1) Maximum tax rate is \$0.10000.

(2) No maximum tax rate

Source: McHenry County Clerk

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT
2005 REPRESENTATIVE TOTAL TAX RATE PER \$100 EAV

UNAUDITED

March 31, 2006

	<u>Tax Rate</u>
McHenry County Conservation District	\$ 0.1490
McHenry County	0.7278
School District Number 47	2.7747
High School District Number 155	1.9023
Junior College District Number 528	0.2922
Algonquin Township	0.0531
Algonquin Township Road and Bridge	0.1173
City of Crystal Lake	0.9272
Crystal Lake Park District	0.3562

This table sets forth a representative 2005 levy year total tax rate for certain taxpayers in the City of Crystal Lake, the largest municipality in the District.

Source: McHenry County Clerk

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

TAX EXTENSIONS AND COLLECTIONS

UNAUDITED

March 31, 2006

Levy Year	Collection Year	Taxes Extended	Total Collections During the Year (1)	
			Amount	Percent
2001	2002	\$ 10,469,096	\$ 10,434,325	99.7%
2002	2003	11,039,363	11,019,605	99.8%
2003	2004	11,702,146	11,688,410	99.9%
2004	2005	12,174,788	12,146,910	99.8%
2005	2006	12,761,358	(Collection in progress)	

This table sets forth the tax extensions and collections of the District for the past five years.

(1) Includes all collections of taxes during the year regardless of the year levied.

Source: McHenry County Treasurer

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

SCHEDULE OF LEGAL DEBT MARGIN

UNAUDITED

March 31, 2006

2005 ASSESSED VALUATION	<u>\$ 8,564,661,998</u>
Referendum Debt Limit (1.725% of Equalized Assessed Valuation)	\$ 147,740,419
Amount of Debt applicable to Referendum Debt Limit	<u>85,890,000</u>
REFERENDUM DEBT MARGIN	<u>\$ 61,850,419</u>

This table sets forth the District's legal debt margin.

Source: McHenry County Conservation District

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

DETAILED STATEMENT OF DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

UNAUDITED

March 31, 2006

	Total Debt Outstanding ¹	Percent Applicable to the District	Amount Applicable to the District
McHenry County Conservation District	\$ 85,890,000	100.00%	\$ 85,890,000
Ratio of direct debt to assessed value ²			1.00%
Ratio of direct debt to estimated full value ³			0.33%
Per capita direct debt ⁴			282.54
Total general obligation bonded debt of other taxing bodies			
County	25,589,569	100.00%	25,589,569
Municipalities	36,780,000	93.50%	34,389,300
Park districts	21,738,245	87.78%	19,081,831
Library districts	13,540,000	75.06%	10,163,124
Special service areas	2,450,000	58.89%	1,442,805
Elementary school districts	94,091,084	98.40%	92,585,627
High school districts	81,154,841	99.71%	80,919,492
Unit school districts	600,754,430	37.44%	224,922,459
Community colleges	188,844,169	3.91%	7,383,807
Total general obligation bonded debt of overlapping districts	1,064,942,338		496,478,014
TOTAL DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT	\$ 1,150,832,338		\$ 582,368,014
Ratio of direct and overlapping debt to assessed value ⁴			6.80%
Ratio of direct and overlapping debt to estimated full value ³			2.27%
Per capita direct and overlapping debt ⁴			\$ 1,915.75

Note: overlapping debt information was abstracted from the McHenry County Clerk's records. Debt information for overlapping debt is as of November 30, 2005, the fiscal year end of the county.

¹Includes original principal amount of general obligation capital appreciation bonds and general obligation alternate revenue source bonds. Does not include installment contracts, notes, or certificates of participation, if any.

²Based on the District's 2005 EAV of \$8,564,661,998

³Based on the District's 2005 estimated full value of \$25,693,985,994

⁴Based on the County's 2005 census population of 303,990

This table sets forth the District's direct and overlapping debt.

Source: McHenry County Auditor's Office

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

DEBT SERVICE SCHEDULE

UNAUDITED

March 31, 2006

Fiscal Year Ending March 31	Debt Service on Outstanding Bonds	Debt Service on New Bonds			Total Debt Service on New Bonds and Outstanding Bonds
		Principal	Interest	Total	
2007	\$ 6,745,955	\$ -	\$ -	\$ -	\$ 6,745,955
2008	6,955,988	-	-	-	6,955,988
2009	7,175,773	-	-	-	7,175,773
2010	7,399,135	-	-	-	7,399,135
2011	7,625,485	-	-	-	7,625,485
2012	7,859,935	-	-	-	7,859,935
2013	8,111,235	-	-	-	8,111,235
2014	8,358,510	-	-	-	8,358,510
2015	8,624,735	-	-	-	8,624,735
2016	8,893,910	-	-	-	8,893,910
2017	9,164,385	-	-	-	9,164,385
2018	9,444,213	-	-	-	9,444,213
2019	9,735,250	-	-	-	9,735,250
2020	10,031,750	-	-	-	10,031,750
2021	10,342,500	-	-	-	10,342,500
	<u>\$ 126,468,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,468,759</u>

Future financing

The District does not expect to issue additional debt within the next 12 months.

Debt service schedule

This table sets forth the total debt service schedule for the District.

Default history

There is no record of default on obligations by the District or issuance of obligations to avoid default.

Short-term borrowing

The District does not currently utilize and short-term borrowing.

Source: McHenry County Clerk

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

BALANCE SHEETS - GENERAL FUND

UNAUDITED

Last Nine Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006
ASSETS									
Cash and cash equivalents	\$ 3,415,519	\$ 5,906,996	\$ 2,099,632	\$ 2,266,817	\$ 2,356,033	\$ 7,543,719	\$ 7,971,708	\$ 11,402,618	\$ 14,592,809
Short-term investments	-	-	-	-	-	-	350,271	329,326	152,320
Receivables	3,472,403	3,663,410	3,868,915	4,141,943	4,477,114	4,682,952	4,994,918	5,339,945	5,731,826
Property taxes, net of allowance	430,325	298,124	401,549	1,095,486	1,301,753	37,759	3,260,264	272,421	2,683,396
Due from other governmental units	-	-	-	18,201	-	-	-	-	31,044
Other receivables	-	-	-	-	-	-	-	-	6,428
Prepaid items	-	-	-	-	-	-	-	-	547
Due from other funds	-	-	1,360,441	30,645	-	-	-	-	-
TOTAL ASSETS	\$ 7,338,747	\$ 9,869,530	\$ 7,730,537	\$ 7,553,052	\$ 8,134,880	\$ 12,264,410	\$ 16,577,161	\$ 17,344,310	\$ 23,198,370

LIABILITIES AND
FUND BALANCE

LIABILITIES									
Accounts payable	\$ 79,468	\$ 58,763	\$ 175,331	\$ 55,854	\$ 57,104	\$ 196,221	\$ 34,190	\$ 102,800	\$ 132,851
Accrued liabilities	193,019	174,309	245,086	201,180	321,610	343,011	427,084	420,665	218,419
Due to other funds	194,081	1,257,208	-	-	99,052	3,123,638	503,533	870,463	748,798
Unearned revenue	-	-	-	-	-	-	-	2,058,928	2,025,024
Deferred revenue	3,472,403	3,663,410	3,868,915	4,141,943	4,477,114	4,695,408	7,095,692	5,341,688	5,731,826
Land contract	20,800	-	-	-	-	-	-	-	-
Due to other governmental units	-	151,087	-	-	-	-	-	-	-
Real estate tax credit	-	-	14,724	-	-	-	-	-	-
Total liabilities	3,959,771	5,304,777	4,304,056	4,398,977	4,954,880	8,338,278	8,060,499	8,794,544	8,856,918
FUND BALANCE									
Reserved	-	1,005,000	5,138	5,320	5,793	5,403	5,048,874	4,462,263	10,822,344
Unreserved	3,378,976	3,559,753	3,421,343	3,148,755	3,174,207	3,900,729	3,467,788	4,087,503	3,519,108
Total fund balance	3,378,976	4,564,753	3,426,481	3,154,075	3,180,000	3,906,132	8,516,662	8,549,766	14,341,452
TOTAL LIABILITIES AND FUND BALANCE	\$ 7,338,747	\$ 9,869,530	\$ 7,730,537	\$ 7,553,052	\$ 8,134,880	\$ 12,264,410	\$ 16,577,161	\$ 17,344,310	\$ 23,198,370

(See independent auditor's report.)

MCHENRY COUNTY CONSERVATION DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GENERAL FUND

UNAUDITED

Last Nine Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES									
Taxes									
Property	\$ 3,242,403	\$ 3,502,767	\$ 3,693,253	\$ 3,895,050	\$ 4,175,971	\$ 4,507,305	\$ 4,721,780	\$ 5,038,579	\$ 5,381,543
Intergovernmental revenue	823,260	2,205,094	951,559	1,107,737	960,290	187,503	815,034	1,507,358	919,518
Rental income	128,189	145,617	164,430	154,928	266,265	336,656	482,717	638,158	593,547
Interest	185,450	251,679	235,973	187,215	107,030	63,362	87,880	171,564	458,839
Miscellaneous	119,265	193,607	97,043	137,110	142,234	163,974	171,434	319,017	167,279
Total revenues	4,498,567	6,298,764	5,142,258	5,482,040	5,651,790	5,258,800	6,278,845	7,674,676	7,520,726
EXPENDITURES									
General government	578,988	803,155	523,080	582,190	602,567	815,349	776,861	1,059,370	1,043,197
Education services	353,019	339,854	426,557	454,876	486,385	501,761	483,520	518,388	573,824
Police and safety services	292,711	321,610	395,907	483,528	603,050	616,550	582,931	623,422	698,817
Land facilities and management	940,915	1,093,786	1,318,960	1,353,981	1,559,321	1,524,079	1,603,910	1,745,103	1,750,245
Natural resources management	488,607	507,252	837,720	968,571	698,091	610,184	612,516	759,836	812,640
Wildlife resources			103,209	123,949	120,704	133,603	140,391	144,239	152,957
Planning and development	36,674	24,236	161,964	194,765	220,527	155,868	129,495	131,137	179,112
Communications			191,591	313,894	351,904	345,769	385,360	365,949	306,230
Land development and acquisition	101,755	81,008	65,560	101,684					
Trail of history					32,061	25,797	70,880	75,005	47,464
Promotional expenses		1,480		29,171					
Pipeline agreement								3,525	
Bogert project								9,855	9,555
Kishwaukee ecosystem project						42,270	32,400		
Research field station					11,361	17,790	96,113	112,330	108,489
Capital outlay	933,389	3,940,606	1,386,169	1,257,467	944,557	296,448	1,175,983	421,899	731,847
Total expenditures	3,726,058	7,112,987	5,412,717	5,864,076	5,630,528	5,085,468	6,090,780	5,970,058	6,414,377
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	772,509	(814,223)	(270,459)	(382,036)	21,262	173,332	188,065	1,704,618	1,106,349
OTHER FINANCING SOURCES (USES)	-	2,000,000	(867,813)	109,630	4,663	2,800	7,802	7,861	32,509
NET CHANGE IN FUND BALANCES	772,509	1,185,777	(1,138,272)	(272,406)	25,925	176,132	195,867	1,712,479	1,138,858
FUND BALANCES, APRIL 1	2,606,467	3,378,976	4,564,753	3,426,481	3,154,075	3,180,000	3,906,132	8,516,662	8,549,766
Prior period adjustment								(1,679,375)	4,652,828
Transfer in						550,000	4,414,663		
FUND BALANCES, APRIL 1, RESTATED	2,606,467	3,378,976	4,564,753	3,426,481	3,154,075	3,730,000	8,320,795	6,837,287	13,202,594
FUND BALANCES, MARCH 31	\$ 3,378,976	\$ 4,564,753	\$ 3,426,481	\$ 3,154,075	\$ 3,180,000	\$ 3,906,132	\$ 8,516,662	\$ 8,549,766	\$ 14,341,452

(See independent auditor's report.)

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Form of Municipal Bond Insurance Policy

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)