DAC Bond®

NEW ISSUE—BOOK ENTRY **(See "RATINGS" herein)**

In the opinion of Kutak Rock LLP and Charity & Associates, P.C., both of Chicago, Illinois, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming continuing compliance with certain covenants, interest on the Series 2004A Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2004A Bonds is not exempt from income taxes currently imposed by the State of Illinois. For a more complete description, see "TAX MATTERS" herein.

$205,410,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A

Dated: Date of Issuance **Due: December 1, as shown on the inside cover**

The Series 2004A Bonds are fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2004A Bonds. Purchasers of the Series 2004A Bonds will not receive certificates representing their interests in the Series 2004A Bonds purchased. Principal of, redemption premium, if any, and interest on the Series 2004A Bonds will be paid by Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, bond registrar and paying agent for the Series 2004A Bonds to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Series 2004A Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Series 2004A Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See "THE SERIES 2004A BONDS – Book-Entry Only System." The Series 2004A Bonds are issuable in denominations of $5,000 and any integral multiple thereof.

The proceeds from the sale of the Series 2004A Bonds, together with certain moneys of the Board, will be used (i) to advance refund certain of the Board's outstanding bonds, (ii) to pay costs of issuance of the Series 2004A Bonds, and (iii) for other lawful purposes. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS."

The Series 2004A Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Series 2004A Bonds will be payable from Pledged 2004A Alternate Revenues described herein, consisting of Pledged 2004A PPRT Revenues and Pledged 2004A State Aid Revenues, all as described herein. To the extent that the Pledged 2004A Alternate Revenues are insufficient to pay the debt service on the Series 2004A Bonds, the Series 2004A Bonds will be payable from ad valorem taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Series 2004A Bonds are also payable from all Funds, Accounts and Sub-Accounts established pursuant to the Indenture as security for the Series 2004A Bonds. See "SECURITY FOR THE SERIES 2004A BONDS."

Interest on the Series 2004A Bonds will be payable on each June 1 and December 1, commencing December 1, 2004. The scheduled payment of principal of and interest on the Series 2004A Bonds when due will be guaranteed by a municipal bond insurance policy (the "Policy") to be issued concurrently with the delivery of the Series 2004A Bonds by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE."

MBIA

Certain of the Series 2004A Bonds will be subject to optional redemption prior to maturity, as more fully described in this Official Statement.

The Series 2004A Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of separate approving legal opinions of Kutak Rock LLP and Charity & Associates, P.C., both of Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Ruth M. Moscovitch, and by Katten Muchin Zavis Rosenman, Chicago, Illinois; and for the Underwriters by their Co-Counsel, Burke Burns & Pinelli, Ltd. and Burris, Wright, Slaughter & Tom, LLC, both of Chicago, Illinois. Delivery of the Series 2004A Bonds is expected to be made through the facilities of DTC in New York, New York, on or about April 6, 2004.

Bear, Stearns & Co. Inc.

Citigroup **SBK Brooks Investment Corp.**

Cabrera Capital Markets, Inc. **Merrill Lynch & Co.** **Siebert Brandford Shank & Co., LLC**

April 1, 2004

$205,410,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2004A

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

Maturity December 1	Amount	Interest Rate	Yield
2011	$ 25,000	4.00%	3.12%
2012	2,965,000	5.00	3.36
2013	15,840,000	5.00	3.50
2014	18,615,000	5.00	3.63
2015[c]	36,230,000	5.00	3.73
2016[c]	38,020,000	5.00	3.82
2017[c]	23,025,000	5.00	3.95
2018	24,190,000	5.00	4.05
2019	25,410,000	5.00	4.13
2020[c]	21,090,000	5.00	4.18

[c] Priced to call date of December 1, 2014.

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson, or other person has been authorized by the Board or the Underwriters to give any information or to make any representation with respect to the Series 2004A Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement is neither an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Series 2004A Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the Board and include information from other sources that the Board believes to be reliable. Such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Such information and expressions of opinion 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 since the date hereof. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Series 2004A Bonds.

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Series 2004A Bonds are further qualified by reference to the information with respect thereto contained in the Indenture for the Series 2004A Bonds. Copies of the Indenture are available for inspection at the offices of the Board and the Trustee. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information contained herein is provided as of the date hereof and is subject to change.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2004A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2004A BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2004A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

Certain capitalized terms used in this Official Statement and in the Indenture are defined in APPENDIX B and unless otherwise indicated shall have the respective meanings set forth therein.

Other than with respect to information concerning MBIA Insurance Corporation (the "Bond Insurer") contained under the caption "BOND INSURANCE" and APPENDIX E – "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2004A Bonds; or (iii) the tax exempt status of the interest on the Series 2004A Bonds.

BOARD OF EDUCATION OF

THE CITY OF CHICAGO

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Alberto A. Carrero, Jr.
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Chief Financial Officer

Heather A. Crossley-Obora
Chief Purchasing Officer

Ruth M. Moscovitch
General Counsel

Kutak Rock LLP
Charity & Associates, P.C.
Co-Bond Counsel

A.C. Advisory, Inc.
Kirkpatrick Pettis
Financial Advisors

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$205,410,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues)
Series 2004A

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A in the aggregate principal amount of $205,410,000 (the "Series 2004A Bonds"). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned thereto in APPENDIX B – "Summary of Certain Terms of the Indenture."

The Series 2004A Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Series 2004A Bonds will be issued by the Board pursuant to the provisions of the School Code of the State of Illinois, as amended (the "School Code"), Section 15 of the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), which provides that alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act ("Alternate Bonds"), may, upon meeting certain requirements of the Debt Reform Act, be issued to refund previously issued Alternate Bonds, a resolution adopted by the Board on March 24, 2004 (the "Bond Resolution"), and a Trust Indenture, dated as of April 1, 2004 (the "Indenture"), by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the "Trustee"). The Series 2004A Bonds will be secured by and are payable (i) from the Pledged 2004A Alternate Revenues (as defined below), (ii) to the extent that the Pledged 2004A Alternate Revenues are insufficient to pay the debt service on the Series 2004A Bonds, from the *ad valorem* taxes levied by the Board, pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indenture as security for the Series 2004A Bonds (the "Pledged Taxes") and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the Indenture.

The Pledged 2004A Alternate Revenues consist of the "Pledged 2004A State Aid Revenues" and the "Pledged 2004A PPRT Revenues." The "Pledged 2004A State Aid Revenues" are amounts of State Aid Revenues (as defined herein) not in excess of amounts available under the 1998 Authorization (as defined herein) in amounts each year equal to 1.25 times the debt service payments on the Series 2004A Bonds payable from such State Aid Revenues as set forth in the Indenture. For additional information, see "SECURITY FOR THE SERIES 2004A BONDS – General" and "– General State Aid." "The Pledged 2004A PPRT Revenues" are annual amounts of Personal Property Replacement Tax Revenues (as defined herein) that are received by the Board in any year and remaining after any required allocation thereof to provide for the payment of the Statutory Claims (as defined herein) and subject to the

prior lien of the Board's Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996, outstanding, after giving effect to the refunding of the Refunded Bonds (as defined herein, see "PLAN OF FINANCE"), in the amount of $61,285,000 (the "Series 1996 Bonds") and its Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, outstanding, after giving effect to the refunding of the Refunded Bonds in the amount of $152,070,000 (the "Series 1997 Bonds") in amounts each year equal to 1.25 times the debt service payments on the Series 2004A Bonds payable from such Personal Property Replacement Tax Revenues as set forth in the Indenture. For additional information see "SECURITY FOR THE SERIES 2004A BONDS – General" and "– Personal Property Replacement Taxes." For a discussion of obligations of the Board payable from the Board's annual receipt of Personal Property Replacement Tax Revenues and from State Aid Revenues, see "– Prior Alternate Bonds" below.

The proceeds from the sale of the Series 2004A Bonds, together with certain moneys of the Board, will be used (i) to advance refund the Refunded Bonds, (ii) to pay costs of issuance of the Series 2004A Bonds, and (iii) for other lawful purposes. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS."

The Board will issue its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B in the principal amount of $298,075,000 (the "Series 2004B Bonds") contemporaneously with the Series 2004A Bonds. The Series 2004B Bonds will be general obligations of the Board, payable from certain payments of State Aid Revenues pledged by the Board. The Series 2004B Bonds will be issued initially as auction rate securities. The Series 2004B Bonds are also being issued to advance refund certain of the Board's outstanding bonds. See "PLAN OF FINANCE."

The Series 2004A Bonds will bear interest from the date of original issuance thereof, payable on June 1 and December 1, commencing December 1, 2004, at the rates set forth on the inside cover hereof.

The scheduled payment of principal of and interest on the Series 2004A Bonds when due will be guaranteed under a municipal bond insurance policy (the "Policy") to be issued concurrently with the delivery of the Series 2004A Bonds by MBIA Insurance Corporation (the "Bond Insurer"). For additional information, see "BOND INSURANCE."

Prior Alternate Bonds

General. The Board has previously issued Alternate Bonds payable from sources that, in some instances, include State Aid Revenues and Personal Property Replacement Tax Revenues as discussed herein. In the event such sources are insufficient or not available for payment of such bonds, the bonds are payable from *ad valorem* taxes levied by the Board. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations."

Secured by Personal Property Replacement Tax Revenues. The Series 2004A Bonds are being issued on a parity basis, as to the claim on Personal Property Replacement Tax Revenues, with the Board's outstanding $499,995,204.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the "Series 1997A Bonds"), its outstanding

$14,000,000 Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the "Series 1998 Bonds"), its outstanding $328,714,364.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues) Series 1998B-1 (the "Series 1998B-1 Bonds") and its outstanding $532,553,135.50 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A (the "Series 1999A Bonds"). The lien of the 2004A Bonds, the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds and the Series 1999A Bonds on the Personal Property Replacement Tax Revenues is junior in priority to that of the outstanding Series 1996 Bonds and Series 1997 Bonds. See "SECURITY FOR THE SERIES 2004A BONDS – General" and "– Personal Property Replacement Taxes."

Secured by State Aid Revenues. The Series 2004A Bonds, with respect to the pledge of the Pledged 2004A State Aid Revenues, are on a parity with outstanding Alternate Bonds of the Board issued pursuant to a resolution adopted by the Board on August 26, 1998 (the "1998 Authorization") and outstanding in the amount of $390,870,000 after giving effect to the refunding of the Refunded Bonds. Outstanding obligations of the Board are, and additional obligations of the Board in the future may be, secured by pledges of State Aid Revenues to be received by the Board in amounts set forth in other resolutions authorizing the issuance of Alternate Bonds. None of such obligations have a claim on that portion of the State Aid Revenues received in each year by the Board constituting the Pledged 2004A State Aid Revenues, and the Series 2004A Bonds are not secured by that portion of the State Aid Revenues received in each year by the Board as provided in such other resolutions. See "SECURITY FOR THE SERIES 2004A BONDS – General" and "– General State Aid."

PLAN OF FINANCE

General

Proceeds of the Series 2004A Bonds, together with other moneys available to the Board (the "Board Deposit"), will be used to refund all or a portion of certain maturities of outstanding general obligation bonds of the Board. The table attached to this Official Statement as APPENDIX F – "General Obligation Bonds to be Refunded by the Series 2004A Bonds" sets forth the series designation, original CUSIP, maturity date, interest rate, principal amount and redemption date and price for each maturity of bonds to be refunded with proceeds of the Series 2004A Bonds (collectively, the "Refunded Bonds"). Proceeds of the Series 2004A Bonds will also be used to pay certain costs of issuance of the Series 2004A Bonds.

The refunding of the Refunded Bonds will allow the Board to achieve debt service savings. To provide for the payment and retirement of the Refunded Bonds, a portion of the proceeds of the Series 2004A Bonds, together with the Board Deposit, will be used to purchase direct obligations of the United States of America (the "Government Obligations"). The principal of and interest on the Government Obligations will be sufficient (i) to pay when due the principal of and interest on the Refunded Bonds to their respective redemption dates and (ii) to pay or redeem the Refunded Bonds on their respective redemption dates at their respective principal amounts or redemption prices, all as set forth in APPENDIX F.

The Government Obligations will be held in an escrow account (the "Refunding Escrow Account") established under a Refunding Escrow Agreement, dated as of April 1, 2004 (the

"Refunding Escrow Agreement"), between the Board and Amalgamated Bank of Chicago, as escrow agent (the "Refunding Escrow Agent"). Funds held in the Refunding Escrow Account will not serve as security or be available for payment of principal of or interest on the Series 2004A Bonds. The Refunded Bonds will be legally defeased in accordance with the applicable provisions of the respective indentures under which each series of the Refunded Bonds were originally issued and will no longer have any lien or claim on the State Aid Revenues or Personal Property Replacement Tax Revenues pledged for their payment.

The mathematical computation of the adequacy of the Refunding Escrow Account to provide for the payments of the Refunded Bonds as described above will be verified at the time of the delivery of the Series 2004A Bonds by Causey Demgen & Moore Inc., independent certified public accountants. See "CERTAIN VERIFICATIONS."

The Series 2004B Bonds

The Board will issue its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B in the principal amount of $298,075,000 contemporaneously with the Series 2004A Bonds. The Series 2004B Bonds will be issued initially as auction rate securities. The Series 2004B Bonds are also being issued to advance refund certain of the Board's outstanding general obligation bonds. The Board will enter into three swap agreements in connection with the issuance of the Series 2004B Bonds. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Swap Agreements." The Series 2004B Bonds will be described in a separate official statement of the Board available upon request from the office of the Board's Treasurer.

SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds of the Series 2004A Bonds are summarized below.

SOURCES OF FUNDS	
Principal Amount	$205,410,000.00
Original Issue Premium	21,042,734.25
Board Deposit[1]	14,051,576.26
TOTAL	$240,504,310.51
USES OF FUNDS	
Deposit into Refunding Escrow Account	$231,554,273.23
Deposit to Payment Sub-Account of Pledged 2004A Alternate Revenues Account[2]	6,704,190.97
Costs of Issuance (including Underwriters' Discount and Premium for Bond Insurance Policy)	2,245,846.31
TOTAL	$240,504,310.51

(1) Amounts available for the payment of debt service on the Refunded Bonds under their respective indentures and related agreements will be transferred to the Board and used for purposes connected with the refunding of the Refunded Bonds or the issuance of the Series 2004A Bonds.

(2) Represents an amount which is sufficient to pay interest on the Series 2004A Bonds to and including December 1, 2004.

THE SERIES 2004A BONDS

General

The Series 2004A Bonds initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York ("DTC"). Details of payments of the Series 2004A Bonds and the book-entry only system are described below under the subcaption "– Book-Entry Only System." Except as described under the subcaption "– Book-Entry Only System" below, beneficial owners of the Series 2004A Bonds will not receive or have the right to receive physical delivery of Series 2004A Bonds, and will not be or be considered to be the registered owners thereof. Accordingly, beneficial owners must rely upon (i) the procedures of DTC and, if such beneficial owner is not a DTC "Participant" (as defined below), the Participant who will act on behalf of such beneficial owner to receive notices and payments of principal and purchase price of, premium, if any, and interest on the Series 2004A Bonds, and to exercise voting rights and (ii) the records of DTC and, if such beneficial owner is not a Participant, such beneficial owner's Participant, to evidence its beneficial ownership of the Series 2004A Bonds. So long as DTC or its nominee is the registered owner of the Series 2004A Bonds, references herein to Bondholders or registered owners of such Series 2004A Bonds mean DTC or its nominee and do not mean the beneficial owners of such Series 2004A Bonds.

The Series 2004A Bonds will be dated the date of original issuance thereof and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Series 2004A Bonds will be issued only as fully registered bonds in denominations of $5,000 or integral multiples thereof. The Series 2004A Bonds will bear interest from the date of original issuance thereof, payable on June 1 and December 1 of each year, commencing December 1, 2004, at the rates set forth on the inside cover page hereof. Each Series 2004A Bond will bear interest from the later of its date or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of such Series 2004A Bond is paid or duly provided for. Interest on the Series 2004A Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on each Series 2004A Bond will be payable on each interest payment date to the person in whose name the Series 2004A Bond is registered at the close of business on the fifteenth day of the calendar month next preceding each interest payment date. See APPENDIX B – "Summary of Certain Provisions of the Indenture."

Redemption

Optional Redemption. The Series 2004A Bonds maturing on or after December 1, 2015 (except for Series 2004A Bonds maturing on December 1, 2018 and December 1, 2019) are subject to redemption prior to maturity, at the option of the Board in whole or in part and, if in part, in any order of maturity designated by the Board in Authorized Denominations on any date on and after December 1, 2014, at the redemption price of par plus accrued interest to the date fixed for redemption.

Redemption Procedures

If less than all of the Series 2004A Bonds of like maturity are called for optional redemption under provisions of the Indenture permitting partial redemption, the particular Series 2004A Bonds (or portions thereof) to be redeemed will be selected at random by the Trustee; *provided, however*, that the portion of any Series 2004A Bond of a denomination of more than $5,000 will be in the principal amount of an Authorized Denomination and that, in selecting portions of such Series 2004A Bonds for redemption, the Trustee will treat each such Series 2004A Bond as representing that number of Series 2004A Bonds of denominations of $5,000 which is obtained by dividing the principal amount of such Series 2004A Bond to be redeemed in part by $5,000. If all Series 2004A Bonds are held in book-entry only form, the particular Series 2004A Bonds or portions thereof to be redeemed will be selected by the securities depository for the Series 2004A Bonds in accordance with the procedures of such securities depository.

Notice of Redemption

For a description of the giving of notices while the Series 2004A Bonds are in the book-entry only system, see "– Book-Entry Only System" below. Whenever Series 2004A Bonds are to be redeemed, the Trustee will give notice of the redemption of the Series 2004A Bonds, which notice shall specify, among other things, the maturities of the Bonds to be redeemed, the redemption date, the redemption price, the place and manner of payment and, if less than all of the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed

in part only, such notice will also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. Such notice shall further state that on the redemption date there will become due and payable the redemption price of each Bond to be redeemed, or the redemption price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date, interest will cease to accrue on the Series 2004A Bonds which are the subject of such notice. Notice of the redemption of Series 2004A Bonds will be given by first class mail, postage prepaid, not less than 30 days and not more than 60 days prior to the redemption date, to the registered owners of the Series 2004A Bonds to be redeemed at their addresses as shown on the Bond Register. Failure to give notice in the manner described above or a defect in the notice as to any Series 2004A Bond will not affect the validity of any proceedings for redemption as to any Series 2004A Bond for which notice is properly given.

Bond Registration and Transfers

For a description of the procedure to transfer ownership of a Series 2004A Bond while in the book-entry only system, see "– Book-Entry Only System" below. Subject to the limitations described below, the Series 2004A Bonds are transferable upon surrender thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to, the Trustee and duly executed by the Bondholder or such Bondholder's attorney duly authorized in writing. Subject to the limitations described below, any Bond may be exchanged at the principal corporate trust office of the Trustee upon surrender thereof, together with an assignment duly executed by the registered owner thereof or such registered owner's attorney in such form and with guarantee of signature as shall be satisfactory to the Trustee for an equal aggregate principal amount of Series 2004A Bonds of like date and tenor of any Authorized Denomination as the Series 2004A Bonds surrendered for exchange bearing numbers not contemporaneously outstanding. The Trustee and the Board may charge a fee sufficient to cover any tax, fee or other governmental charge in connection with any exchange or transfer of any Series 2004A Bond (except in connection with any partial redemption thereof).

Book-Entry Only System

General. The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Board nor the Underwriters are responsible for its accuracy or completeness.

DTC will act as securities depository for the Series 2004A Bonds. The Series 2004A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 2004A Bond certificate will be issued for each maturity of Series 2004A Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered

pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides assets servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation ("NSCC"), Government Securities Clearing Corporation ("GSCC"), MBS Clearing Corporation ("MBSCC") and Emerging Markets Clearing Corporation ("EMCC") (NSCC, GSCC, MBSCC and EMCC are also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "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 Series 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004A 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, but beneficial owners are 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 Series 2004A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Series 2004A Bonds, except in the event that use of the book-entry system for the Series 2004A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2004A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Series 2004A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004A Bonds are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2004A Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Beneficial owners of the Series 2004A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2004A Bonds, such as redemptions, defaults and proposed amendments to the Bond documents. Beneficial owners of Series 2004A Bonds may wish to ascertain that the nominee holding the Series 2004A Bonds for their benefit has agreed to obtain and transmit notices to beneficial owners, or, in the alternative, beneficial owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2004A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 Series 2004A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2004A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2004A Bonds at any time by giving reasonable notice to the Board and the Trustee. Under such circumstances, if a successor securities depository is not obtained, certificates for the Series 2004A Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2004A Bonds will be printed and delivered.

For every transfer and exchange of the Series 2004A Bonds, the Trustee and DTC and the DTC Participants will charge the beneficial owner a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

NEITHER THE BOARD NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH

RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2004A BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2004A BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

SECURITY FOR THE SERIES 2004A BONDS

General

The Series 2004A Bonds will be issued pursuant to the School Code, the Debt Reform Act, the Bond Resolution and the Indenture. The Series 2004A Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit, and will be payable, both as to principal and interest, from any moneys, revenues, receipts, income, assets or funds of the Board legally available for such purpose.

The Series 2004A Bonds will be payable from and secured by a pledge of (i) an amount that, in each year that the Series 2004A Bonds are outstanding, shall provide for the payment of annual debt service on the Series 2004A Bonds ("Pledged 2004A Alternate Revenues"), consisting of (a) payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future ("State Aid Revenues"), not in excess of amounts available under the 1998 Authorization as shall provide for debt service on the Series 2004A Bonds in each year as set forth in the Indenture and the provision of not less than an additional .25 times such amounts in such years (the "Pledged 2004A State Aid Revenues"), and (b) the amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act, as amended, or from such successor or replacement fund or act as may be enacted in the future ("Personal Property Replacement Tax Revenues"), that are received or to be received by the Board in any year and remaining after any required allocation thereof to provide for the payment of the Statutory Claims (as defined herein) and subject to the prior lien of the Series 1996 Bonds and the Series 1997 Bonds as shall provide for debt service on the Series 2004A Bonds in each year as set forth in the Indenture and the provision of not less than an additional .25 times such amounts in such years (the "Pledged 2004A PPRT Revenues"), (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Series 2004A Bonds (the "Pledged Taxes"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged 2004A Alternate Revenues are not available in sufficient amounts to pay the debt service on the Series 2004A Bonds.

As described above under "INTRODUCTION – Prior Alternate Bonds – *Secured by Personal Property Replacement Tax Revenues,*" the Series 2004A Bonds will be payable, as to

the lien on Personal Property Replacement Tax Revenues, on a parity basis with the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds and the Series 1999A Bonds (collectively, the "Outstanding Parity Bonds"). The Series 1996 Bonds and the Series 1997 Bonds (collectively, the "Outstanding Senior Bonds") are also payable from and secured by a pledge of Personal Property Replacement Tax Revenues and the lien of the Outstanding Senior Bonds on Personal Property Replacement Tax Revenues is senior in priority to that of the Outstanding Parity Bonds.

In connection with the issuance of the Series 2004A Bonds, the Board will enter into a Second Restated Master Alternate Bonds Escrow Agreement (the "Master Escrow Agreement") with Amalgamated Bank of Chicago, as escrow agent (the "Master Escrow Agent"). In order to provide for the payment of Personal Property Replacement Tax Revenues that have been pledged to the payment of the Series 2004A Bonds, the Outstanding Senior Bonds, the Outstanding Parity Bonds and the Statutory Claims, the Board has directed the Department of Revenue of the State of Illinois (the "Department of Revenue") to deposit all proceeds of the Personal Property Replacement Tax Revenues annually allocated and paid to the Board with the Master Escrow Agent. Under the Master Escrow Agreement, the Master Escrow Agent will annually distribute such deposits: *first*, to the Board, in an amount necessary to pay any Statutory Claims for the subject year; *second*, to the respective trustees for the Outstanding Senior Bonds in amounts sufficient to provide for the payment of debt service for the subject year pursuant to the respective indentures for the Outstanding Senior Bonds; and *third*, to the Trustee and the respective trustees for the Outstanding Parity Bonds in amounts sufficient to provide for the payment of debt service for the subject year pursuant to the Indenture and the respective indentures for the Outstanding Parity Bonds.

As described above under "INTRODUCTION – Prior Alternate Bonds – *Secured by State Aid Revenues*," as to the lien on the Pledged 2004A State Aid Revenues, the Series 2004A Bonds will be payable on a parity basis with outstanding Alternate Bonds of the Board issued pursuant to the 1998 Authorization and any Additional Bonds. The Board has also authorized the issuance of obligations payable from the State Aid Revenues which obligations do not have a claim on State Aid Revenues that constitute the Pledged 2004A State Aid Revenues.

The scheduled payment of principal of and interest on the Series 2004A Bonds when due will be guaranteed under the Policy to be issued concurrently with the issuance of the Series 2004A Bonds by the Bond Insurer. For additional information, see "BOND INSURANCE."

General State Aid

General State Aid ("GSA") represents the major portion of state support for Illinois public elementary and secondary schools. GSA is not targeted or categorical in nature, but may generally be expended at the discretion of the local school districts. However, the School Code requires the Board to dedicate a minimum of $261.0 million from its GSA revenue to supplemental programs in the Supplemental General State Aid Fund (formerly known as State Chapter One Fund) for children from low-income families.

GSA consists of a regular foundation formula claim, as explained below, and a low-income student grant. The calculation of the regular foundation claim depends primarily upon a district's best three months' average daily attendance and local resources, such as equalized

assessed valuation of property and corporate personal property replacement tax revenues within the school district. The low-income student grant provides additional resources for school districts that have a high concentration of low-income pupils. The low-income eligible pupil count came from the most recently available federal census through fiscal year 2003. In May 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, a new poverty count prepared by the Illinois Department of Human Services is used, starting in fiscal year 2004. The fiscal year 2004 count will be an average of the 2002 and 2003 count of children who are eligible for assistance under Medicaid, Kidcare, Food Stamps, or Temporary Assistance for Needy Families ("TANF"). The poverty count for fiscal year 2005 and each year thereafter will be the average of the children eligible for Medicaid, Kidcare, Food Stamps and TANF for the three previous years.

The GSA formula used through fiscal year 1998 provided for different methods of allocation, depending primarily upon the equalized assessed valuation of property within a school district's boundaries. The amount of GSA distributed to school districts was determined by the annual State appropriation.

The GSA formula was significantly amended in 1997 (the "1997 Amendments"). As a result, the minimum or "foundation level" of GSA per pupil was increased from $3,132 in fiscal year 1998 to $4,225 in fiscal year 1999, $4,325 in fiscal year 2000, $4,425 in fiscal year 2001, $4,560 in fiscal year 2002, and remained at $4,560 in fiscal year 2003. The foundation level for fiscal year 2004 was $4,810 per pupil, an increase of $250 over the fiscal year 2003 level. In subsequent years, this "foundation level" will be set by the General Assembly, with advice from a funding advisory board.

Legislation adopted in 1999 by the General Assembly increased GSA funding for school districts that would otherwise experience a decrease in this funding because of increases in equalized assessed valuation of real property. In addition, the General Assembly increased the per pupil amount of the low-income student grant for low-income students, which is based on the low-income student count prepared by the Bureau of Census. As a result, the per pupil amount of the low-income student grant that applies to the Board was $1,243 for fiscal year 2000, $1,273 for fiscal year 2001, $1,333 for fiscal year 2002, $1,362 for fiscal year 2003 and $1,230 for fiscal year 2004. The lower per-pupil amount in fiscal year 2004 reflects the new poverty grant formulation adopted in May 2003.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 1994 through 2003 and the amount estimated to be allocated to the Board in 2004, the required contributions for Supplemental General State Aid allocations to individual schools, and the net amount available for deposit into the General Fund.

GENERAL STATE AID
Fiscal Years 1994 - 2004
(Dollars in Millions)

Fiscal Year	Total GSA Claim[(1)]	Supplemental General State Allocation	Unrestricted GSA General Fund Deposit[(2)]
1994	453.6	248.9	204.4
1995	485.6	260.5	224.5
1996	501.7	261.6	240.1
1997	503.3	261.2	242.1
1998	567.7	261.2	306.5
1999	706.2	261.3	444.9
2000	711.1	261.0	450.1
2001	730.4	261.0	469.4
2002	801.8	261.0	540.8
2003	786.9	261.0	525.9
2004*	840.7	261.0	579.7

(1) Source: Illinois State Board of Education. Net of Illinois State Board of Education audit adjustments.
(2) Reflects moneys available to fund Pledged 2004A State Aid Revenues and pledges of State Aid Revenues made in connection with other obligations of the Board. Of such amount, a maximum of $425,000,000 is pledged to secure Alternate Bonds.

* Estimated

In calculating GSA, the State employs a formula consisting of a variety of variables, including one referred to as "available local resources." One factor used in determining a school district's available local resources is the amount of revenue that it derives from local property taxes. Consequently, the level of GSA in future years may be impacted by a number of factors, including increases in the aggregate real estate tax revenues that the Board may potentially derive from (i) changes in the equalized assessed valuation of property within the School District and (ii) the addition of new property to the School District's tax base, as well as the determination of the School District's maximum operating tax rate in any given year, under the Illinois Property Tax Extension Limitation Law (the "Limitation Law").

Illinois law further specifies that whenever new property is added to a school district's tax base, adjustments are to be made to that school district's GSA. As of today, as a general matter, under the law, the Board will experience a $3 decrease in GSA for every $100 of adjusted equalized assessed valuation resulting from the addition of new property to its tax base (the "New AEAV"). However, given the Board's current operating tax rate, the Board could offset this decrease and receive approximately $3.50 in additional real estate taxes for every $100 of New AEAV, provided that the Board elects to apply its full, current operating tax rate to the New AEAV in the year in which it becomes available.

In particular, a number of tax increment financing areas (the "TIFs") established by the City of Chicago (the "City") in prior years are expected to terminate, commencing in 2007. As these TIFs terminate, the New AEAV resulting from their termination will become part of the School District's tax base with respect to which the Board will be entitled to levy its then current operating tax rate. As described above, the addition of the New AEAV from an expiring TIF to

the School District's tax base will cause a reduction in GSA, but this reduction can be offset by increased real estate tax revenues.

The Board does not anticipate that any future reductions in GSA resulting from New AEAV will impact the Board's ability to collect the Pledged 2004A State Aid Revenues in amounts sufficient to meet its debt service obligations and debt service coverage covenants with respect to the Series 2004A Bonds.

Personal Property Replacement Taxes

Purpose/History. Article 9, Section 5 of the Illinois Constitution of 1970 abolished all *ad valorem* taxes on personal property effective January 1, 1979. Article 9, Section 5 of the Illinois Constitution of 1970 also required that the Illinois General Assembly establish a tax (or taxes) on businesses to replace the revenue lost by units of local government as a result of the abolition of the personal property tax. Pursuant to state constitutional mandate, this lost revenue was to be replaced by statewide taxes, other than *ad valorem* taxes on real estate, solely on those classes relieved of the burden of paying *ad valorem* personal property taxes. To implement this state constitution mandate, the General Assembly imposed the "Replacement Taxes," described in more detail below and in APPENDIX C – "Information Concerning Personal Property Replacement Tax Revenues." These taxes became effective on July 1, 1979.

Allocation and Payment. The Replacement Taxes are collected by the Department of Revenue and are deposited in the Personal Property Replacement Tax Fund and allocated among approximately 6,700 taxing districts. Taxing districts in Cook County receive 51.65 percent of the collections; taxing districts outside of Cook County receive 48.35 percent of the collections. The allocation of Replacement Taxes among taxing districts in Cook County, including the Board, is based on the ratio of each taxing district's personal property tax collections for the 1976 tax year to the total personal property tax collections for all taxing districts in Cook County for the 1976 tax year. As a result of these allocations, the Board receives 14 percent of the total Replacement Taxes collected each year.

Payments of Replacement Taxes are made directly to, or as directed by, the fiscal officer of each taxing district in January, March, April, May, July, August, October and December of each year. The State Revenue Sharing Act currently provides for appropriation to taxing districts of the Replacement Taxes on a continuing basis, without the need for annual approval by the Illinois General Assembly. As described herein, the Board has irrevocably directed the Department of Revenue to deposit all of the Board's allocation of the Replacement Taxes with the Master Escrow Agent.

For additional information on the collection, allocation and payment of the Replacement Taxes, see APPENDIX C – "Information Concerning Personal Property Replacement Tax Revenues."

Prior Statutory Claims. Pursuant to Section 12 of the State Revenue Sharing Act, Personal Property Replacement Tax Revenues are required to be applied by the Board *first* toward payment of the proportionate amount of debt service which was previously levied and collected from extensions against personal property on bonds outstanding as of December 31, 1978 and *next* toward payment of the proportionate share of the pension and retirement

obligations of the Board which were previously levied and collected from extensions against personal property. Such prior claims on Personal Property Replacement Tax Revenues are referred to herein as the "Statutory Claims."

The Board has no bonds or other debt currently outstanding which was outstanding as of December 31, 1978. In addition, as a result of Public Act 89-698, effective January 14, 1997, the Board is not currently or in future years authorized or directed to levy a specific property tax in satisfaction of its pension and retirement obligations in the manner contemplated in Section 12 of the State Revenue Sharing Act. Consequently, under current law no portion of the Personal Property Replacement Tax Revenues is required to be applied either (a) to pay debt service on any obligations or (b) to fund the Board's existing pension and retirement obligations, prior to payment of debt service on the Bonds or the Prior Alternate Bonds. See "THE BOARD OF EDUCATION OF THE CITY OF CHICAGO – Employee Pension Obligations" for additional information on the Board's obligation to fund its employee pension and retirement obligations.

In future years, if the General Assembly restores a specific property tax levy for pension and retirement purposes, the effect of such restoration may be to reinstate the operation of Section 12 of the State Revenue Sharing Act with the possible result that a portion of the Personal Property Replacement Tax Revenues would be required to be applied first to pay a portion of the Board's pension and retirement obligations. For additional information, see "- Replacement Tax Statistical Tables" under APPENDIX C – "Information Concerning Personal Property Replacement Tax Revenues."

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Series 2004A Bonds if Pledged 2004A Alternate Revenues are insufficient. The Pledged Taxes are *ad valorem* taxes levied against all of the taxable property in the School District, without limitation as to rate or amount. However, based on projected receipts of Pledged 2004A Alternate Revenues, the Board anticipates that all Pledged Taxes will be abated. To the extent that the Pledged 2004A Alternate Revenues are not available in sufficient amounts, the debt service on the Series 2004A Bonds is payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage attributable to the levy of the Pledged Taxes for the payment of the debt service on the Series 2004A Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the Indenture. The Board has covenanted in the Indenture to take all actions necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Series 2004A Bonds. For additional information concerning the levy and collection of the Pledged Taxes, see "THE REAL PROPERTY TAX SYSTEM – Real Property Assessment, Tax Levy and Collection Procedures."

Debt Service Funds and Accounts

The Indenture establishes the Debt Service Fund as a separate fund pledged to the payment of debt service on the Series 2004A Bonds. The Indenture also establishes three separate accounts in the Debt Service Fund, known as the "Alternate Revenues Account," the "Pledged Taxes Account," and the "Bond Payment Account." The Alternate Revenues Account

consists of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account further consists of the State Aid Revenues Sub-Account and the PPRT Revenues Sub-Account.

Application of Pledged 2004A Alternate Revenues; Abatement of Pledged Taxes

The Pledged 2004A Alternate Revenues received by the Trustee (a) from the Board, with respect to Pledged 2004A State Aid Revenues, and (b) from the Master Escrow Agent, with respect to the Pledged 2004A PPRT Revenues, will be applied to the payment of debt service on the Series 2004A Bonds in accordance with the following procedures set forth in the Indenture:

(i) On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes described below (each such date being referred to as a "Deposit Date"), the Board will deposit in the State Aid Revenues Sub-Account such amounts of Pledged 2004A State Aid Revenues as shall be necessary to cause the amount on deposit in said Sub-Account to equal the interest on and principal of the Series 2004A Bonds scheduled to be paid from Pledged 2004A State Aid Revenues during the twelve-month period beginning on the preceding December 2 (a "Bond Year"), as set forth in the Indenture; and

(ii) Pledged 2004A PPRT Revenues in each year will be deposited promptly upon receipt into the Deposit Sub-Account, until there shall be on deposit in said Sub-Account an amount of Pledged 2004A PPRT Revenues sufficient to pay all of the interest on and principal of the Bonds scheduled to be paid from Pledged 2004A PPRT Revenues during the Bond Year beginning on December 2 of such year, as set forth in the Indenture.

With respect to Pledged 2004A State Aid Revenues, in the event that on any Deposit Date there has been deposited to the credit of the State Aid Revenues Sub-Account an insufficient amount to satisfy the amount required by the Indenture, the Board will take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the State Aid Revenues Sub-Account, to provide funds sufficient to satisfy the requirements in (i) above.

With respect to Pledged 2004A PPRT Revenues, in the event that, as of the last Business Day of any year there is an insufficient amount on deposit in the Deposit Sub-Account to satisfy the requirement set forth in paragraph (ii) above, the Trustee shall (A) notify the Board of that fact and the amount of the shortfall and the Board shall take such actions as are necessary to cause the extension of the Pledged Taxes levied for such year in an amount sufficient, when added to the amount then on deposit in the Deposit Sub-Account, to provide for the payment of the interest on and principal of the Series 2004A Bonds due during the then current Bond Year and scheduled to be paid from Pledged 2004A PPRT Revenues; and (B) on such last Business Day of such Year, transfer all amounts on deposit in the Deposit Sub-Account (whether or not sufficient for such purposes) into the PPRT Revenues Sub-Account.

On or before February 16 of each year, whenever sufficient funds are on deposit in the Payment Sub-Account of the Alternate Revenues Account to pay the principal of and interest on the Series 2004A Bonds due during the current Bond Year, the Trustee shall deliver to the Board a notice evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes.

Payment of Debt Service on the Series 2004A Bonds

The Trustee shall transfer first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the State Aid Revenues Sub-Account, and last from moneys on deposit in the PPRT Revenues Sub-Account (i) to the Interest Sub-Account of the Bond Payment Account on or before each Interest Payment Date for any of the Outstanding Series 2004A Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; and (ii) to the Principal Sub-Account of the Bond Payment Account on or before each December 1, an amount equal to the principal amount of the Outstanding Series 2004A Bonds, if any, which mature on such date.

All amounts on deposit in the State Aid Revenues Sub-Account and the PPRT Revenues Sub-Account on December 2 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Accounts in accordance with the Indenture and paid to the Board free and clear of the lien of the Indenture.

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged 2004A Alternate Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Series 2004A Bonds. See APPENDIX B – "Summary of Certain Provisions of the Indenture."

Additional Obligations Payable From State Aid Revenues or Personal Property Replacement Tax Revenues

The Board may issue Additional Bonds from time to time payable on a parity with the Series 2004A Bonds from all or any portion of the State Aid Revenues or the Personal Property Replacement Tax Revenues or any other source of payment which may be pledged under the Debt Reform Act; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Subject only to compliance with such provisions of the Debt Reform Act, there is no limit on the aggregate principal amount of Additional Bonds, which may be issued by the Board.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from the State Aid Revenues and/or from the Personal Property Replacement Tax Revenues, which are subordinate to the Series 2004A Bonds. Such subordinate obligations will be paid from such State Aid Revenues and/or Personal Property Replacement Tax Revenues available to the Board in each year in excess of those required to be deposited in the Funds and Accounts established under the Indenture.

Series 2004A Bonds Are Obligations of the Board

The Series 2004A Bonds are the direct and general obligations of the Board to the payment of which the Board has pledged its full faith and credit and taxing power. The Series 2004A Bonds are not the obligations of the City, the State or any other political subdivision of the State (other than the Board). Neither the full faith and credit nor the taxing power of the City, the State or any other political subdivision of the State (other than the Board) is pledged to the payment of the Series 2004A Bonds.

Rights of the Bond Insurer

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the sole owner of Series 2004A Bonds insured under the Bond Insurance Policy for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

BOND INSURANCE

The following information has been supplied by the Bond Insurer for inclusion in this Official Statement. No representation is made by the Board or the Underwriters as to the accuracy or completeness of the information.

Upon the issuance of the Series 2004A Bonds, MBIA Insurance Corporation (the "Bond Insurer" or "MBIA") will issue a municipal bond insurance policy (the "Policy") that will guarantee the payment of scheduled principal of and interest on the Series 2004A Bonds (as the "Insured Series 2004A Bonds"). Reference is made to APPENDIX E for a specimen of the Policy.

The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading and the specimen municipal bond insurance policy included as APPENDIX E. In addition, the Bond Insurer makes no representation regarding the Series 2004A Bonds or the advisability of investing in the Series 2004A Bonds.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Board to the Trustee or its successor of an amount equal to (i) the principal at the stated maturity and interest on the Series 2004A Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of optional redemption or acceleration resulting from default or otherwise, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2004A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2004A Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional redemptions; (ii) any payments to be made on an accelerated basis; or (iii) any Preference relating to (i) or (ii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series 2004A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 2004A Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Series 2004A Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2004A Bonds or presentment of such other proof of ownership of the Series 2004A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2004A Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2004A Bonds in any legal proceeding related to payment of insured amounts on the Series 2004A Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Series 2004A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE" and in APPENDIX E hereto. Additionally, MBIA makes no

representation regarding the Series 2004A Bonds or the advisability of investing in the Series 2004A Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

The Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2004A Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2003 MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.2 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2004A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2004A Bonds. MBIA does not guaranty the market price of the Series 2004A Bonds nor does it guaranty that the ratings on the Series 2004A Bonds will not be revised or withdrawn.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

The Board is a body politic and corporate and a school district of the State, having boundaries coterminous with the boundaries of the City. The Board is established under and governed by the School Code. The Board is not a home rule unit of government.

The Board maintains the system of public schools within the City primarily for grades kindergarten through 12. Responsibility for the governance of the Board and policy-making for the public school system is currently vested in the seven-member Chicago Board of Education (the "School Board"). In addition, elected local school councils, composed of parents, teachers, principals and community representatives, exercise certain powers relating to the operation of individual schools in the public school system, including selection of principals.

Governing Body

Pursuant to the provisions of Public Act 89-15, approved and effective May 30, 1995 (the "1995 Amendatory Act"), the then-existing 15-member Chicago Board of Education (the "Prior Board") was replaced with the Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois (the "Reform Board of Trustees"). Under the 1995 Amendatory Act, the Reform Board of Trustees served as the governing board of the School District until June 30, 1999. On July 1, 1999, by operation of the 1995 Amendatory Act, the Reform Board of Trustees became the School Board. The members of the School Board were appointed by the Mayor of the City (the "Mayor") and are listed below. The appointments to the School Board did not require approval of the City Council.

Under the School Code, the School Board is responsible for approving the annual budget, approving contracts (including collective bargaining agreements), levying real property taxes and establishing general policies of the Board. The current members of the School Board are as follows:

Michael W. Scott is President of the School Board. Mr. Scott is Vice President of Regulatory Affairs for Comcast Corporation. He is also a commissioner on the Public Building

Commission of Chicago. He was formerly the Executive Director of the Lawndale People's Planning and Action Conference, then Director of Community Development and ultimately, Vice President of Pyramidwest Development Corporation. He also has served under the late Mayor Harold Washington as Special Assistant to the Mayor, Director for the Mayor's Office of Special Events, and Chief Cable Administrator for the City of Chicago's Office of Communication. Prior to being elected President, Mr. Scott served as a member of the Board and chaired its committee on real estate. Mr. Scott currently serves on the board of directors for the Community Bank of Lawndale and for a number of civic and charitable organizations, including, among others, Mount Sinai Hospital, Better Boys Foundation and the Chicago Historical Society.

Norman R. Bobins is Chairman, President and Chief Executive Officer of LaSalle National Bank. He has also served as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago and is also a member of the Public Building Commission of Chicago. He received a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration from the University of Chicago. He is a graduate of the Chicago Public Schools. Mr. Bobins is active in several civic organizations, including Chicago United.

Dr. Tariq Butt is Director of the Access Community Health Network. As part of his medical practice, Dr. Butt provides a range of medical services to patients on the west side of the City, regardless of their ability to pay. Dr. Butt is a native of Pakistan, where he received his medical training. He has also served as Chairman of the Mayor's Advisory Council on Asian-American Affairs, a position from which he resigned to serve on the School Board. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards.

Clare Munana is a public sector management and international consultant with over 15 years of domestic and international business experience. She was formerly a researcher at the Brookings Institute where she performed risk analysis of foreign markets. Ms. Munana is a graduate of Boston College, where she received her Bachelor of Arts degree in Political Science and Spanish Literature. She earned a Masters in International Economics and Politics from the School of Advanced International Studies of John Hopkins University and a Masters of Management from the Kellogg Graduate School of Management at Northwestern University. Ms. Munana recently completed a certification program at the Sorbonne-University of Paris in French Civilization and Language.

Gene R. Saffold is Managing Director and Head of Public Finance for Banc One Capital Markets, Inc. He also serves as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago. He has previously held positions at Salomon Smith Barney, The First National Bank of Chicago and LS Financial Group. Mr. Saffold received a Bachelor of Arts degree from Carleton College in Minnesota and a Master of Business Administration degree from the University of Chicago Graduate School of Business. He is a graduate of the Chicago Public Schools. Mr. Saffold is active in several civic organizations, including the Civic Federation of Chicago.

Alberto A. Carrero, Jr. is Senior Vice President and Public Banking Manager of Banco Popular North America ("Banco Popular"), the country's largest Hispanic-owned bank. In

addition to his regional duties, Mr. Carrero is also a member of Banco Popular's national team currently in charge of expanding the bank's services in government and public agencies at city, state and national levels. Prior to joining Banco Popular, Mr. Carrero worked for the Federal Deposit Insurance Company (FDIC) in the New York Region. He graduated from the University of Puerto Rico with a degree in Business Administration and Finance. Mr. Carrero is member of the Board of Trustees of the City Colleges of Chicago and has been the recipient of numerous awards from Illinois and New York City and State agencies for excellence in business.

The members of the School Board have been appointed to serve terms ending as follows:

Member	Term Expires
Michael W. Scott, President	June 30, 2003*
Norman R. Bobins	June 30, 2006
Dr. Tariq Butt	June 30, 2003*
Clare Munana	June 30, 2006
Gene R. Saffold	June 30, 2003*
Alberto A. Carrero, Jr.	June 30, 2006

* Members continue to hold office pursuant to Section 34-3(b) of the School Code, 105 ILCS 5/1 *et seq.*

At the expiration of the term of each member, the Mayor shall appoint a successor for a four-year term from July 1 of the year in which the term commences. Any vacancy shall be filled by appointment of the Mayor for the unexpired term. Currently, there is one vacancy on the School Board.

The School Board elects annually from its members a president and vice-president in such manner as the School Board determines.

Central Administration

As authorized under the School Code, the Board has established the following offices and appointed the following individuals to serve in the capacities indicated.

Chief Executive Officer	Arne Duncan
Chief Education Officer	Barbara Eason-Watkins
Chief Administrative Officer	David Vitale
Chief Operating Officer	Sean P. Murphy
Chief Financial Officer	John Maiorca
Chief Purchasing Officer	Heather A. Crossley-Obora
General Counsel	Ruth M. Moscovitch

Arne Duncan is the Chief Executive Officer of the Board. Mr. Duncan was formerly Deputy Chief of Staff for the previous Chief Executive Officer of the Board and, prior to that, directed the Ariel Education Initiative. He received a Bachelor of Arts degree in Sociology from Harvard University. Mr. Duncan serves on the boards of directors for the Ariel Education Initiative, The Children's Center, City Year, the Illinois Council Against Handgun Violence and

the South Side YMCA, and serves on the Visiting Committee for the University of Chicago's School of Social Service Administration.

Barbara Eason-Watkins is the Chief Education Officer of the Board. Dr. Eason-Watkins is a nationally recognized school principal from Chicago's Woodlawn community who has spent her entire 29-year professional career in the schools, working with students, teachers and parents. Since 1988, Dr. Eason-Watkins has been principal of McCosh Elementary School in Chicago. A native of Detroit, Michigan, she received a Bachelor's degree in elementary education from the University of Michigan, a Masters degree in educational administration and supervision from Chicago State University, and a doctorate in education, with a specialty in curriculum and instruction, from Loyola University, Chicago.

David Vitale is the Chief Administration Officer of the Board, overseeing all of the educational support departments, including Finance, Budget, Operations, Human Resources, Technology, Security, Procurement and Business Diversity. In February of 2003, Mr. Vitale joined the Board as Senior Advisor to the Chief Executive Officer, on a full-time, pro-bono basis to improve efficiencies of the school system. Prior to joining the Board, Mr. Vitale served as President and Chief Executive Officer of the Chicago Board of Trade. In addition to serving as a member of the CBOT's Board of Directors and Executive committee, Mr. Vitale also served as President and CEO of the MidAmerica Commodity Exchange, an affiliate of CBOT. Mr. Vitale is a graduate of Harvard University and earned an MBA from the University of Chicago.

Sean P. Murphy is the Chief Operating Officer of the Board. Prior to his current appointment, Mr. Murphy served as the Board's Chief Purchasing Officer. Prior to his service with the Board, he served as Deputy Commissioner for the City's Department of Aviation, acting as the Business Director for the O'Hare Modernization Program. Mr. Murphy also served as Deputy Procurement Officer for the City's Department of Procurement Services. Prior to his service with the City, Mr. Murphy served for over 10 years with Raytheon Engineers and Constructors, Inc. and RR Donnelley in various procurement roles, up to and including Project Procurement Manager, executing design-build projects and strategic sourcing initiatives. Mr. Murphy received a Bachelor of Science degree in Mathematics from Colorado State University and a Masters of Business Administration from DePaul University.

John Maiorca is the Chief Financial Officer of the Board. Prior to his current appointment, he served as the Budget Director for the Board's Office of Management and Budget. Prior to his service with the Board, Mr. Maiorca served as First Deputy Director for the City of Chicago's Departments of Revenue and Office of Budget and Management. Mr. Maiorca received a Masters of Urban Planning degree from the City University of New York and a Bachelor of Arts from the City University of New York.

Heather A. Crossley-Obora is the Chief Purchasing Officer of the Board. Ms. Obora previously served as the Board's Deputy Chief Financial Officer and Deputy Controller-Disbursements. Prior to joining the Board, Ms. Obora was the Comptroller for the Clerk of the Circuit Court of Cook County, a Senior Tax Accountant for Crowe Chizek in Oak Brook, Illinois and a Senior Accountant for Barbich, Longcrier, Hooper & King, a public accounting firm in Bakersfield, California. Ms. Obora holds a BS in Business Administration with a Concentration in Accounting from California State University–Bakersfield.

Ruth M. Moscovitch is the General Counsel of the Board. Prior to her current appointment, Ms. Moscovitch served as an executive for Commonwealth Edison Co., and its parent Exelon Energy Delivery as Vice President, Labor Relations for the Nuclear Generation Group of ComEd and as Vice President for Strategic Initiatives for Exelon Energy Delivery. Prior to joining Commonwealth Edison Company, Ms. Moscovitch was the General Counsel for the City Colleges of Chicago. Ms. Moscovitch also served as a Chief in the Appeals and Litigation Divisions for the City of Chicago's Department of Law. Ms. Moscovitch received her law degree from Northwestern University and her bachelor's degree from Radcliffe College, Harvard University.

School System

The Chicago Public School system consists of 602 attendance centers consisting of 493 elementary schools, 95 high schools and 14 charter schools serving 438,589 children.

The following table presents the fall enrollment in the school system for the last five school years.

School Year	Elementary School	High School	Combined
2002/2003	337,525	101,064	438,589
2001/2002	338,445	99,173	437,618
2000/2001	339,281	96,189	435,470
1999/2000	336,631	95,119	431,750
1998/1999	335,539	95,546	431,085

Capital Improvement Program

The Board is currently implementing one of the largest school construction and rehabilitation programs in the nation. Initially adopted by the Board in 1996, the Capital Improvement Program is an ongoing plan of work, based on current projections of funding availability and project priorities. The Capital Improvement Program is organized around three basic and critical objectives: (a) reducing student density to no more than 80 percent of each elementary school's design capacity to relieve severe overcrowding; (b) achieving a minimum level of physical condition and operating efficiency for each facility; and (c) improving the overall quality of the learning environment at each individual school. To achieve these objectives, the Capital Improvement Program is organized into three general program areas:

1. New construction, including new schools, additions, annexes and modular units;

2. Building renovation, including new windows, new roofs, masonry, science labs, gymnasiums, Americans with Disabilities Act improvements, energy efficiencies and information technology, including wiring and equipment to connect all Chicago Public Schools facilities to a area wide network; and

3. Educational enhancements, including new campus parks and playlots.

Program Management. The Board utilizes a broad-based priority system for structuring the Capital Improvement Program, including architectural assessments that categorize capital projects by need. To date, the Capital Improvement Program has addressed primarily the highest

priority exterior envelope projects such as windows, roofs and masonry work. With many of these projects completed or underway, the next phase will be addressing high priority, interior projects such as electrical and heating/air ventilation systems.

Coupled with the broad-based priority system, the Capital Improvement Program is re-evaluated annually to ensure that changing needs are incorporated into the program. For example, the Board annually updates space utilization reports to gauge current student overcrowding. To assess long-term classroom demand, the Board utilizes University of Illinois demographic forecasts. The Board also employs an aggressive preventative maintenance and evaluation program to (1) ensure that capital improvements are sustained through preventative measures and (2) provide an on-going capital needs assessment system-wide.

The Board uses third-party firms to provide program management services for the Capital Improvement Program to ensure appropriate oversight and cost control. In September 1998, the Board engaged Chicago School Associates, a joint venture of design, engineering, and construction firms, as program manager.

Summary of Work Performed and Expenditures. Since the program's inception, over 1,390 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,000 additional students. These new classrooms are distributed throughout 21 new schools, 8 replacement schools, 34 additions and 27 annexes. Additionally, 2,094 renovations have been completed to date including new roofs at 372 schools, new windows for 347 schools, and masonry work for 330 schools. Over 779 local area network projects have been completed. The Board anticipates undertaking a similar number of renovation projects and installing local area networks in its remaining schools in the coming years. Finally, approximately 282 play lots and 16 athletic fields have been renovated to provide students with safe facilities for play and sports.

To finance the Capital Improvement Program, the Board has issued $3.6 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of January 31, 2004, approximately $3.2 billion of the proceeds of such Bonds have been spent, and substantially all of the net proceeds remaining have been "encumbered" (i.e., obligated for future expenditure on identified projects).

Future Financings. The Board may issue additional bonds to continue implementation of the Capital Improvement Program. Further, consistent with applicable provisions of State law, the Board has the authority to adopt additional authorizing resolution(s) under which some of these bonds may be issued.

Further, the Board anticipates that, subject to market conditions and other factors, it may issue one or more series of Alternate Bonds in addition to those described above to refund, at or prior to maturity, a portion of the outstanding Alternate Bonds. Other types of debt obligations may also be used to provide the Board with funds for future implementation of certain components of the Capital Improvement Program.

Educational Reform Initiatives

Under Mayor Richard M. Daley's leadership, the Chicago Public School system ("CPS") has become a national model for urban education. School districts across the country, as well as foreign nations, are turning to Chicago for lessons in making public education effective. In July 2001, Mayor Daley appointed a new management team consisting of experienced managers who have guided CPS over the past six years as well as new talent drawn from the corporate, university, and nonprofit sectors. This team remains committed to enhancing the fundamental services efficiently and effectively provided to students and to bringing new vitality to CPS' educational programs.

Focus on Educational Goals. CPS has developed strategies that enhance educational opportunities and improve the academic skills of all CPS students. Working together with parents, community-based organizations, teachers, educators, and the elected officials of the Chicago Teachers Union, CPS' focus encompasses three areas: reading, teacher excellence, and community schools.

Reading Enhancement Action Plan. This top priority program focuses on teaching every student in every school to read. The program establishes a uniform instructional framework structured to provide continuity citywide at all grade levels. The program requires a minimum of two hours a day be devoted exclusively to reading and writing in every elementary school. At the high school level, double periods of reading and writing are required for students not at grade level. In addition, CPS is training an elite corps of reading specialists, recruited both locally and nationally, to ensure that teachers are trained to use books and materials appropriately.

Teacher Excellence. Rising student enrollments, an increasing number of teachers reaching retirement age, and a decreasing number of college students choosing a teaching career have led CPS to new initiatives to recruit and retain teachers. Teacher quality, one of the best predictors of student achievement, is being addressed through an initiative to ensure that all teachers are qualified and have appropriate certifications in all classrooms. Creating strong, nurturing environments that support teacher needs will further improve teacher classroom skills and drive student achievement.

Community Schools. Several CPS schools operate year-round and are open long hours to provide for the needs of the students before, during and after traditional school days. CPS' vision encompasses a comprehensive, coordinated and collaborative delivery of services jointly created and operated by the school, community organizations and parents as equal partners based on each school's needs. Programs currently offered include tutoring, art, sports and other enrichment activities designed to build on skills, talents and interests developed as part of the regular curriculum. By collaborating with community-based organizations already funded to provide social and health services to our students, schools can directly address the needs of children by providing services onsite.

Educational Results. There continue to be many positive educational trends at CPS. The 2003 results from the Iowa Test of Basic Skills show that 40.9 percent of elementary school students are reading at or above national norms, while 48.2 percent are performing at or above national norms in math. Overall, reading scores are up 14.4 percentage points and math 17.2 percentage points since 1996, the first full school year Mayor Daley assumed responsibility for

the schools. Additionally, in high schools, the dropout rate has declined, the graduation rate has continued to grow, average ACT scores have increased, and more students are taking advanced placement classes than ever before.

Chicago Teachers' Union and Other Employee Groups

For its 2004 fiscal year, the Board employed approximately 47,000 persons. Approximately 90% of the Board's employees are represented by six unions that engage in collective bargaining with the Board. As of September 1, 2003 approximately 74% of the Board's employees were represented by the Chicago Teacher's Union (the "CTU") and approximately 16% were represented by five other unions.

The Board's current four-year agreement with the CTU expires June 30, 2007. The contract provides for base salary increases for most teachers of 4% for each fiscal year through 2007. These amounts are subject to increase if the Board receives additional funding from certain sources.

The remaining five labor unions also hold four year contracts with the Board. All of these agreements expire on June 30, 2007. Employees represented by these unions will experience a base salary increase of 4% for each fiscal year through 2007.

The Board has sought certain methods of alternative dispute resolution to reduce the number of union grievances and overall labor litigation. A voluntary grievance mediation program, a labor management committee and a class size monitoring committee designed to resolve class size complaints successfully divert numerous matters away from litigation each year.

Other issues addressed in all collective bargaining agreements with the Board include various working conditions, grievance procedure and employee benefits. For a discussion of pension and retirement benefits for eligible employees, see "– Employee Pension Obligations" below under this caption.

Recent Financial Information Concerning the Board

For fiscal years 1996 through 2003, the Board adopted and achieved a balanced budget. On June 25, 2003, the Board also adopted a balanced budget for fiscal year 2004 that reflected total resources including $73.7 million of available fund balances and appropriations of $3.8 billion for the General Operating Fund.

The most recent audited financial statements are for the fiscal year ended June 30, 2003 and are included as APPENDIX A, including the unqualified report of independent auditors dated December 12, 2003.

GASB No. 34. In June of 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* ("GASB No. 34"). The GASB No. 34 financial reporting model is mandatory for all state and local governments and dramatically changes the presentation and content of governments' external financial statements. GASB No. 34 required that the CPS implement the new reporting

model no later than fiscal year 2002. The CPS implemented GASB No. 34 earlier than required for fiscal year 2001 reporting purposes.

General Operating Fund Balances. As of June 30, 2003, the Board had a fund balance of $329.0 million, of which $120.6 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was $208.4 million, $161.2 million of which was designated to provide operating capital. The approved fiscal year 2004 budget draws $48.7 million from the existing fund balance. In addition, the fiscal year 2004 budget re-appropriated $25.0 million of ending fiscal year 2003 fund balance as reserved for specific purposes. The amounts shown in the following table have been adjusted to reflect the actual fiscal year end amount reserved for such purposes of $15.2 million.

General Operating Fund Revenues, Expenditures, Other Financing Sources and Changes in Fund Balances for the Board[1]

(Amounts in Thousands)

	As of June 30,					
	Actual Audited					Budget
	1999	2000	2001	2002	2003	2004 [4]
Revenues:						
Property Taxes	$1,314,362	$1,352,374	$1,379,010	$1,429,307	$1,495,382	$1,524,700
Replacement Taxes	84,513	89,142	71,230	57,193	48,852	50,925
State Aid	1,190,289	1,247,174	1,275,707	1,336,586	1,307,229	1,318,943
Federal Aid	460,343	497,673	552,311	539,573	602,677	779,014
Investment Income	28,006	36,347	42,501	16,505	20,803	16,440
Other	71,113	65,515	78,107	66,917	76,609	77,000
Total Revenues	$3,148,626	$3,288,225	$3,398,866	$3,446,081	$3,551,552	$3,767,022
Expenditures						
Instruction	$1,816,130	$1,888,879	$1,995,423	$2,152,958	$2,214,781	$2,410,348
Pupil Services	271,876	301,714	303,071	311,628	320,380	381,129
Support Services	683,539	684,365	730,187	750,111	764,002	759,650
Food Services	154,581	161,614	166,365	160,063	170,238	179,318
Community Services	65,465	73,792	73,718	47,523	47,253	43,731
Capital Outlay	2,302	—	394	—	—	—
Teachers' Pension	65,045	65,045	65,045	65,045	65,045	65,045
Other	1,790	9,093	18,916	6,558	13,742	1,450
Total Expenditures	$3,060,728	$3,184,502	$3,353,119	$3,493,886	$3,595,441	$3,840,671
Revenues in Excess of (less than) Expenditures	$ 87,898	$ 103,723	$ 45,747	$ (47,805)	$ (43,889)	$ (73,649)
Other Financing Sources	—	11,436	(46,797)[2]	1,527	7,711	—
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	$ 87,898	$ 115,159	$ (1,050)	$ (46,278)	$ (36,178)	$ (73,649)
Fund Balance, Beginning of Period	361,895	449,793	564,952	411,412	365,134	328,956
Impact of Adopting GASB No. 33[3]	—	—	(152,490)	—	—	—
Fund Balance, End of Period	$ 449,793	$ 564,952	$ 411,412	$ 365,134	$ 328,956	$ 255,307
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	$ 107,951	$ 102,623	$ 149,675	$ 118,726	$ 78,879	$ 78,879
Specific Purposes	53,587	69,272	60,218	36,525	41,718	15,195
Total Reserved Fund Balance	$ 161,538	$ 171,895	$ 209,892	$ 155,251	$ 120,597	$ 94,074
Unreserved:						
Designated to Provide Operating Capital	$ 231,300	$ 295,900	$ —	$ 201,520	$ 161,233	$ 161,233
Undesignated	56,955	97,157	201,520	8,383	47,126	—
Total Unreserved	$ 288,255	$ 393,057	$ 201,520	$ 209,903	$ 208,359	$ 161,233
Total Fund Balance	$ 449,793	$ 564,952	$ 411,412	$ 365,154	$ 328,956	$ 255,307

(1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2003 – Note (2)."

(2) Net Operating Transfer in fiscal year 2001 included $48.8 million transferred to the Debt Service Funds to fund future debt service payments other than for the Series 2003A Bonds, Series 2004A Bonds and Series 2004B Bonds.

(3) GASB No. 33 established new accounting rules which affect the timing of recognition of certain revenues. The impact of adoption resulted in a one-time restatement of opening fund balance and a deferral of revenue.

(4) Revenues and expenditures are in accordance with the Fiscal Year 2004 Budget. The approved Fiscal Year 2004 Budget re-appropriated $25.0 million of ending fiscal year 2003 fund balance as reserved for specific purposes. The amounts shown in the table have been adjusted to reflect the actual fiscal year end amount reserved for such purposes of $15.2 million.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Prior Alternate Bonds, the Series 2004A Bonds and the Series 2004B Bonds, the Board's outstanding long-term debt consists of approximately $496 million aggregate principal amount of leases with The Public Building Commission of Chicago (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS – Other Public Bodies – The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

Board's Debt Service Schedule
As of April 6, 2004*

Calendar Year	Prior Alternate Bonds: Bonds[1][2][3][4]	Prior Alternate Bonds: Commission Obligations[1]	PBC Leases[2]	The Series 2004A Bonds	The Series 2004B Bonds[5]	Total Annual Debt Service
2004	$121,892,882	$82,272,438	$51,863,450	$ 6,704,191	$ 4,254,735	$266,987,696
2005	130,439,078	116,578,250	51,572,450	10,270,250	10,563,480	319,423,508
2006	127,435,140	—	51,990,050	10,270,250	10,563,480	200,258,920
2007	132,212,355	—	52,037,000	10,270,250	10,563,480	205,083,085
2008	134,470,535	—	52,096,838	10,270,250	10,563,480	207,401,103
2009	209,543,885	—	52,103,825	10,270,250	10,563,480	282,481,440
2010	213,077,825	—	52,163,338	10,270,250	10,563,480	286,074,893
2011	226,119,717	—	52,232,025	10,295,250	10,563,480	299,210,472
2012	203,747,194	—	52,318,625	13,234,250	10,563,480	279,863,549
2013	212,207,569	—	52,359,513	25,961,000	10,563,480	301,091,562
2014	199,484,038	—	52,430,550	27,944,000	10,563,480	290,422,068
2015	192,907,670	—	52,467,613	44,628,250	10,563,480	300,567,013
2016	184,032,736	—	52,519,550	44,606,750	10,563,480	291,722,516
2017	197,630,457	—	52,600,125	27,710,750	10,563,480	288,504,811
2018	200,712,068	—	52,664,600	27,724,500	12,847,282	293,948,450
2019	224,510,756	—	30,635,500	27,735,000	13,845,395	296,726,651
2020	259,626,284	—	—	22,144,500	14,215,157	295,985,940
2021	283,101,777	—	—	—	14,223,401	297,325,177
2022	253,569,629	—	—	—	14,226,329	267,795,957
2023	248,487,107	—	—	—	43,274,887	291,761,993
2024	248,441,181	—	—	—	43,324,140	291,765,321
2025	248,569,618	—	—	—	43,426,437	291,996,055
2026	248,560,641	—	—	—	43,430,892	291,991,532
2027	218,254,221	—	—	—	43,535,731	261,789,952
2028	284,883,289	—	—	—	68,882,021	353,765,310
2029	284,870,843	—	—	—	8,124,322	292,995,165
2030	284,890,908	—	—	—	8,140,175	293,031,083
2031	284,902,445	—	—	—	8,146,281	293,048,726
2032	54,391,085	—	—	—	8,167,199	62,558,284
2033	30,675,357	—	—	—	—	30,675,357
2034	15,080,604	—	—	—	—	15,080,604
	$6,158,728,892	$198,850,688	$814,055,050	$340,309,941	$529,389,624	$8,041,334,196

* Totals may not add due to rounding.

(1) At June 30, 2003, the Board held on deposit $326,268,402 for Prior Alternate Bond debt service, of which $173,083,469 from state school construction grants is for the Commission Obligations from Calendar Year 2004 - 2005.

(2) Debt service payments include principal and interest due to and including the following January 1 and take into account the refunding of the Refunded Bonds.

(3) Interest on $303,000,000 of variable rate Series 2000B, C, D is calculated at an assumed rate of 6% per annum.

(4) Interest on $183,775,000 of auction rate Series 2003B Bonds is calculated at the swap rate of 3.782% based on a 360-day year consisting of twelve 30-day months. Interest on $72,575,000 of auction rate Series 2003D-1 Bonds and Series 2003D-2 Bonds is calculated at an assumed rate of 5% per annum. Interest on $185,350,000 of auction rate Series 2003D-2 Bonds, Series 2003D-3 Bonds and Series 2003D-4 Bonds is calculated at the swap rate of 3.771% based on a 360-day year consisting of twelve 30-day months. In a 35-day Auction Rate Mode, there may be 11, 12 or 13 interest payment dates in a given year. In the event the payments resulting from the actual Auction Rate are higher than the actual payments received from the Swap Provider, the Board will be required to make payments equal to the amount of any resulting shortfall.

(5) Interest on $298,075,000 of auction rate Series 2004B Bonds is calculated at an assumed rate of 3.544% per annum. In a 35-day Auction Rate Mode, there may be 11, 12 or 13 interest payment dates in a given year. In the event the payments resulting from the actual Auction Rate are higher than the actual payments received from the Swap Provider, the Board will be required to make payments equal to the amount of any resulting shortfall. The amount in 2004 includes interest paid from the date of issuance of the Series 2004B Bonds.

Board's Overlapping Debt Schedule
as of March 15, 2004
(Dollars in Thousands)

	Amount
Direct Debt*	
The Series 2004A Bonds	$ 205,410
The Series 2004B Bonds	$ 298,075
Total Prior Bonds[1]	2,771,708
Commission Obligations (principal component)	110,650
PBC Leases (principal component)	496,444
Total Direct Debt	$3,882,287

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt[2]			
City	$4,954,432	100.00%	$ 4,954,432
School Finance Authority	391,410	100.00	391,410
Community College District	99,375	100.00	99,375
Chicago Park District[3]	948,155	100.00	948,155
Water Reclamation District	1,344,529	45.15	607,055
Cook County	2,552,390	44.19	1,127,900
Forest Preserve District	37,640	44.19	16,633
Total Overlapping Debt			$8,144,960
Total Direct and Overlapping Debt			$12,027,247

Selected Debt Statistics

Population (2000)[4]	2,896,016
Equalized Assessed Valuation (2002)[5] [6]	$ 45,330,892
Estimated Fair Market Value (2002)[7]	$189,362,475

	Per Capita[8]	EAV	FMV
Direct Debt	$1,340.56	8.56%	2.050%
Total Direct and Overlapping Debt	$4,153.03	26.53%	6.351%

* Direct Debt shown is as of April 6, 2004.

(1) Net of $58,505,000 Series 1996, $317,020,000 Series 1997 and $90,435,000 Series 2000A Refunded Bonds.

(2) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the following units of government:
Community College District $ 99,375,000
Chicago Park District $ 26,250,000

(3) Includes $379,405,000 of outstanding general obligation bonds issued as "alternate bonds" under the Debt Reform Act for which the alternate revenue source is personal property replacement tax revenues and parking revenues.

(4) Source: United States Census Bureau.

(5) Cook County only.

(6) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.

(7) Source: The Civic Federation.

(8) Per Capita amounts are not expressed as dollars in thousands.

Equalized Assessed Valuation and Statutory Debt Margin of the Board
(Dollars in Thousands)

	1999	2000	2001	2002	2003
Equalized Assessed Valuation[(1)]	$33,947,364	$35,361,964	$40,487,129	$41,988,859	$45,337,763
Statutory Debt Limit, 13.8% of Equalized assessed valuation	$ 4,684,736	$ 4,879,951	$ 5,587,224	$ 5,794,463	$6,256,611
Principal amount of bonds outstanding[(2)]	0	0	0	0	0
Principal amount of certificates of participation	12,000	0	0	0	0
Aggregate future rentals on leases with Public Building Commission	1,065,144	1,013,799	962,483	911,166	859,842
Less – Cash and investments on hand applicable to reduction of above debt	(49,942)	(37,921)	(38,379)	(37,965)	(37,486)
Net funded debt	$ 1,027,202	$ 975,878	$ 924,104	$ 873,201	$822,356
Unfunded Debt:					
Contracts, leases, purchase orders and outstanding judgments	138,372	136,682	185,554	146,367	108,828
Asbestos abatement loans	16,919	15,438	13,253	11,833	10,413
Net unfunded debt	155,291	152,120	198,807	158,200	119,241
Total debt	$ 1,182,493	$ 1,127,998	$ 1,122,911	$ 1,031,401	941,597
Statutory debt margin[(2)]	$ 3,502,243	$ 3,751,953	$ 4,464,313	$ 4,763,062	5,315,014

(1) Represents Equalized Assessed Valuation at the end of the preceding tax levy year. For example, the Equalized Assessed Valuation shown in the table as of June 30, 2003 is for the tax levy year 2002.

(2) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect the Prior Alternate Bonds, which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Swap Agreements

The Board has entered into two interest rate swap agreements (the "Series 2003B Swap Agreements") in connection with the issuance of its $183,775,000 Unlimited Tax General Obligations Bonds, Series 2003B and two interest rate swap agreements (the "Series 2003D Swap Agreements") in connection with the issuance of its $257,925,000 Unlimited Tax General Obligations Bonds (Dedicated Revenues), Series 2003D. The Board will enter into two interest rate swap agreements in connection with the issuance of the Series 2004B Bonds (the "Series 2004B Interest Rate Swap Agreements") in an aggregate notional amount of $298,075,000. Under such agreements, the Board pays each provider an amount based on a fixed rate and receives an amount based on a percentage of LIBOR from each provider. In all instances, the Board has entered into the swap agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting the interest rate risk inherent in variable rate debt.

In addition, the Board will enter into a third swap agreement in connection with the issuance of the Series 2004B Bonds (the "Series 2004B Basis Swap Agreement" and together with the Series 2004B Interest Rate Swap Agreements, the "Series 2004B Swap Agreements"). The purpose of the Series 2004B Basis Swap Agreement is to mitigate the basis risk described under this caption that is associated with the Series 2004B Swap Agreements.

Series 2003B Swap Agreements. Information related to the Series 2003B Swap Agreements is set forth in APPENDIX A – "Audited Financial Statements for Fiscal Year 2003 – Note (10)."

Series 2003D Swap Agreements. The counterparties to the Series 2003D Swap Agreements are (i) Lehman Brothers Special Financing Inc., with Lehman Brothers Inc. acting as guarantor, and (ii) Goldman Sachs Capital Markets, L.P., with Goldman Sachs Group, Inc. acting as guarantor. The Series 2003D Swap Agreements mature on March 1, 2034. Under the 2003D Swap Agreements, the swap providers agree to pay a variable rate of interest and the Board agrees to pay a fixed rate of interest on a notional principal amount equal to $95,350,000 for the Lehman Brothers swap and $90,000,000 for the Goldman Sachs swap. The $185,350,000 aggregate notional amount for the Series 2003D Swap Agreements represents the principal amount of the Series 2003D-3 Bonds, the Series 2003D-4 Bonds and a portion of the Series 2003D-2 Bonds (the "Swapped Bonds"). The notional amounts under the Series 2003D Swap Agreements decline by the same amount of the associated principal amortization of the Swapped Bonds.

Series 2004B Interest Rate Swap Agreements. The counterparties to the Series 2004B Interest Rate Swap Agreements are (i) Bear Stearns Financial Products, Inc., and (ii) Goldman Sachs Capital Markets, L.P., with Goldman Sachs Group, Inc. acting as guarantor. The 2004B Interest Rate Swap Agreements mature on March 1, 2032. Under the 2004B Interest Rate Swap Agreements, the swap providers agree to pay a variable rate of interest based on a fixed percentage of LIBOR and the Board agrees to pay a fixed rate of interest on a notional amount equal to $119,230,000 for the Bear Stearns swap and $178,845,000 for the Goldman Sachs swap. The $298,075,000 aggregate notional amount for the Series 2004B Interest Rate Swap Agreements represents the principal amount of the Series 2004B Bonds (the "Series 2004 Swapped Bonds"). The notional amounts under the Series 2004B Interest Rate Swap Agreements decline by the same amount of the associated principal amortization of the Series 2004B Swapped Bonds.

Series 2004B Basis Swap Agreement. The counterparty to the Series 2004B Basis Swap Agreement is Bear Stearns Financial Products, Inc. Under the Agreement, the Board pays the provider an amount based on a fixed percentage of LIBOR and receives an amount based on a variable percentage of LIBOR. The Series 2004B Basis Swap Agreement is in a notional amount equal to the principal amount of the Series 2004B Bonds (as amortized over time).

The swaps represented by the Series 2003B Swap Agreements, the Series 2003D Swap Agreements and the Series 2004B Swap Agreements (collectively, the "Swap Agreements") expose the Board to certain risks. Should the market value of the swaps become positive, the Board may be exposed to the credit risk of the swap providers. If a swap provider's credit rating declines below specified rating levels and the market value of the swap reaches certain threshold amounts, the Swap Agreements provide that the market value of the swap will be collateralized by the swap provider with U.S. government securities. Collateral would be posted with a third-party custodian.

The Board will be exposed to "basis risk" should the rate paid on the bonds subject to a Swap Agreement exceed the rate payable to the Board pursuant to the related Swap Agreements.

Should any adverse basis differential occur while a Swap Agreement is in effect, the rate paid on the bonds that are subject to the Swap Agreement will be higher than the synthetic fixed rate, and therefore the expected interest cost savings may not be realized. The Series 2004B Basis Swap Agreement is being entered into in order to mitigate this risk.

The Board may terminate a Swap Agreement at any time at market value. In addition, the Board or a swap provider may terminate a Swap Agreement if the other party fails to perform under the terms of the contract. A Swap Agreement may also be terminated by the Board if the applicable swap provider's credit ratings decline below specified rating levels. A Swap Agreement may also be terminated by the applicable swap provider if the Board's credit ratings decline below specified rating levels. If a Swap Agreement is terminated, the bonds subject to that Swap Agreement would no longer carry a synthetic fixed interest rate, and the Board would be subject to the interest rate risk associated with variable rate debt. Also, if, at the time of termination, a Swap Agreement has a negative market value, the Board would be liable to the applicable swap provider for a termination payment equal to the swap's market value. Such termination payment may be substantial.

The periodic payments to be made by the Board to the swap providers under the Swap Agreements are payable on a subordinate basis to the bonds subject to the Swap Agreements.

Employee Pension Obligations

Funding of Pension Obligations. Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "Pension Fund"). See APPENDIX A – "Audited Financial Statements for Fiscal Year 2003 – Note (12)." The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers' Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (or "Funded Ratio") to equal 90% by fiscal year 2045. As of June 30, 2002, the end of the last fiscal year of the Pension Fund for which audited financial information is available, the Funded Ratio for the Pension Fund, based on a four year "smoothed" (effectively, an average) market value method of valuing assets, was 96.3% and based on current market value was 84.7%.

The 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998: (i) eliminated the Board's obligation to make any local employer pension contribution unless the Funded Ratio of the Pension Fund would otherwise fall below 90%; and (ii) made additional changes to the Board's obligation to fund pension benefits. Based on the current Funded Ratio for the Pension Fund, the Board is not required to provide any contributions to the Pension Fund from local resources in its fiscal year 2004 budget. Contributions to the Pension Fund that are funded by state categorical revenues for teacher pension and by federal categorical programs will continue as before.

Pension Funding Litigation. The Board is involved in litigation with respect to its calculations of certain Pension Fund obligations. See "LITIGATION – Pension Funding Litigation."

Debt Management Policy

To help ensure the Board's creditworthiness, the Board adopted a Debt Management Policy (the "Debt Policy") on October 23, 1996. The purpose of the Debt Policy is to provide a functional tool for debt management and capital planning and to enhance the Board's ability to manage its debt in a conservative and prudent manner. In issuing the Series 2004A Bonds and any future debt, the Board will consider a number of factors, including the duration of the debt in relation to the economic life of the improvement or asset that the issue is financing, negotiated and competitive methods of sale, conditions in both domestic and international markets, credit enhancement agreements, the potential impact of debt service on the operating budget, statutory debt limitations, and credit implications. The Board also believes it should avoid financing general operating costs from debt having maturities greater than one year.

Guidelines for the use of derivative instruments in managing the Board's debt portfolio were presented to the Board in January 2003. The guidelines address compliance with government regulations; appropriate purposes for entering into derivative transactions; the impact of potential risks on the Board's future debt service, budgetary obligations, and long-term credit ratings; accounting treatment; bid solicitation methodology; and other long-term considerations related to the Board's debt portfolio. Derivative transactions entered into by the Board since January 2003, including any derivative transactions that may be entered into in connection with the issuance of the Series 2004B Bonds, have been authorized by Board resolution. The Board is in the process of reviewing its Debt Policy and is considering an amendment to address the Board's use of derivative instruments. A copy of the Debt Policy is available from the Board upon request to the Treasurer of the Board at (773) 553-2790. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Series 2004A Bonds.

Investment Policy

The Board has adopted an Investment Policy (the "Investment Policy"). The objectives of the Investment Policy are to invest public funds in a manner which is consistent with all state and local statutes governing the investment of public funds and which will provide for the safety of principal, diversification and maximization of the rate of return. The Investment Policy specifically prohibits any purchase of financial futures, any leveraged investment lending securities and any collateralized mortgage obligations. The Investment Policy may be subsequently amended or modified by the Board, without notice to or consent of the Owners of the Series 2004A Bonds subject, in all respects, to the provisions of the Public Funds Investment Act of the State of Illinois, as amended. A copy of the Investment Policy is available from the Board upon request to the Treasurer of the Board at (773) 553-2790. All investments of the moneys on deposit in the Funds and Accounts established under the Indenture are subject to the provisions of the Investment Policy as in effect.

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are eight major units of local government located in whole or in part within the boundaries of the school district governed by the Board, each of which (i) is separately incorporated under the laws of the State, (ii) has an independent tax levy, (iii) derives its power and authority under the laws of the State, (iv) maintains its own financial records and accounts and (v) is authorized to issue debt obligations. These units are: the City; the Board; the Chicago School Finance Authority; the Chicago Park District; Community College District Number 508; Cook County; the Forest Preserve District of Cook County; and the Metropolitan Water Reclamation District of Greater Chicago. Each of the foregoing governmental units levies taxes upon property located in the City, and, in some cases, in other parts of Cook County as well. For additional information about the Board, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO." Information about these other units of local government is set forth below.

Major Units of Government

The City of Chicago is a home rule unit of government under the Illinois Constitution, and was incorporated in 1837. The City is governed by the Mayor, who is elected at-large for a four-year term, and a City Council (the "City Council"). The City Council consists of 50 aldermen each representing one of the City's 50 wards, elected for four-year terms.

The Chicago Park District (the "Park District") has boundaries coterminous with the City and is responsible for the maintenance and operation of parks, boulevards, marinas and certain other public property within the City. The Park District is governed by a seven-member board, appointed by the Mayor with the approval of the City Council.

Community College District Number 508 (the "Community College District") is responsible for maintaining and operating a system of community colleges within the City. The governing body is a board of seven trustees appointed by the Mayor with the approval of the City Council.

The County of Cook (the "County") is a home rule unit of government under the Illinois Constitution, and includes virtually all of the City, plus numerous surrounding suburbs and unincorporated areas. The County is governed by a board of 17 Commissioners, each elected for four-year terms from one of 17 districts. The President of the County Board of Commissioners is elected by the voters of the entire County. The voters of the entire County also elect a number of other County Officials, including the County Sheriff, the County Assessor, the County Clerk, the State's Attorney and the County Treasurer. The County is primarily responsible for the operation of the criminal justice system, the provision of health care services and numerous functions relating to property tax administration.

The Forest Preserve District of Cook County (the "Forest Preserve District") has boundaries coterminous with the County and is responsible for establishing, maintaining and operating forest preserves within the County. The governing body is composed of the members of the County Board of Commissioners, chaired by the President of the County Board of Commissioners.

The Metropolitan Water Reclamation District of Greater Chicago (the "Water Reclamation District"), formerly known as the Metropolitan Sanitary District of Greater Chicago, includes virtually all of the City and most of the County. The Water Reclamation District constructs, maintains and operates sewage treatment plants and certain sanitary sewers. In addition, the Water Reclamation District constructs and maintains drainage outlets. The Water Reclamation District is governed by a nine-member board elected at-large by the voters of the Water Reclamation District.

Interrelationships of These Bodies

The overlapping governmental taxing bodies described above and the Chicago School Finance Authority, described below, share in varying degrees a common property tax base with the Board. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule." However each such public body is a separate and distinct governmental unit. The financial condition of any such body does not imply the same condition for the Board.

Other Public Bodies

Other governmental bodies in the Board's geographical boundaries are described below. These governmental bodies are authorized to issue debt obligations, but are not authorized to levy real property taxes.

The Public Building Commission of Chicago (the "PBC") is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental units. The PBC issues bonds to finance its various projects and then leases its facilities to certain governmental units. At present, the Board leases substantially all school buildings and facilities from the PBC. Several other of the major governmental units described above also lease facilities from the PBC. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule."

The Mayor, also one of the members of the PBC, appoints six of the 10 additional members of the PBC. Currently, a member of the School Board is one of these members. The presiding officers of the Park District and the Water Reclamation District each appoint one member while the County appoints two members. The PBC is not authorized to levy real property or other taxes, but the public bodies which lease facilities from the PBC, including the Board, levy real property taxes to make the required lease rental payments.

The Chicago Transit Authority (the "CTA") is a municipal corporation empowered to acquire, construct, own, operate and maintain a transportation system in the City and portions of the County. The CTA is governed by a seven-member board. Four members are appointed by the Mayor with the approval of the City Council, and three members are appointed by the Governor with the approval of the State Senate. The CTA board elects a Chairman from its members who serves for a term of three years.

The Regional Transportation Authority (the "RTA") is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county

area of northeastern Illinois, including Cook County. These include the CTA, METRA, the suburban rail division, and PACE, the suburban bus division. The RTA is governed by a 13-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail sales in the six-county area, and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

The Metropolitan Pier and Exposition Authority (the "MPEA") is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and Navy Pier. MPEA has previously issued revenue bonds to finance its projects. MPEA is governed by a 13-member board, six of whom are appointed by the Governor, with the approval of the State Senate, and six of whom are appointed by the Mayor. The Mayor also appoints, with the approval of the Governor, one additional member who also serves as Chairman of MPEA. The Chief Executive Officer is appointed by the Governor, with the approval of the Mayor. MPEA receives revenue from the operation of its facilities and from the imposition of sales and other consumption-related taxes.

Various authorities have been created under Illinois law to facilitate the financing of educational facilities, health facilities, highways, housing, industrial development, sports facilities, port facilities and other activities. These authorities are not authorized to levy real property taxes.

Chicago School Finance Authority

The Chicago School Finance Authority has outstanding debt issued for the benefit of the School District and is discussed below.

Establishment. In 1979 and early 1980, the Board experienced severe financial difficulties. In January 1980, as part of a plan to address these financial difficulties, the Illinois General Assembly established the Chicago School Finance Authority (the "Authority"). The Authority is governed by a five-member board of directors: two directors are appointed by the Mayor with the approval of the Governor; two directors are appointed by the Governor with the approval of the Mayor; the Chairman is appointed jointly by the Governor and the Mayor. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The final payment of principal and interest on the outstanding bonds issued by the Authority is scheduled to occur in calendar year 2009.

Financial Oversight and Control Powers. Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise certain financial oversight and control powers with respect to the Board. Effective with the passage of the 1995 Amendatory Act, the Authority's financial oversight and control powers were suspended until July 1, 1999. The suspension of these oversight and control powers has been extended until December 31, 2010.

Debt Obligations. Since 1980, the Authority has issued $1,256,215,000 of its general obligation bonds to provide the Board with moneys for operating purposes, school rehabilitation and school construction purposes, working cash purposes and to refinance short-term debt

obligations and to refund outstanding bonds of the Authority. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2003 – Note (13)," for a more complete description of the uses of the proceeds of the various series of bonds issued by the Authority. As of the date of this Official Statement, $386,065,000 of the Authority's bonds are outstanding, net of bonds defeased. The Authority's bonds are general obligations of the Authority, payable from a separate real estate tax levied on all real property in the School District without limit as to rate or amount. The Authority's bonds are not a direct or contingent obligation of the Board. The Authority's levy is a separate levy in addition to all taxes which the Board or the City are authorized to levy. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule."

THE REAL PROPERTY TAX SYSTEM

Real Property Assessment, Tax Levy and Collection Procedures

General. The following is a general summary of the real property assessment, taxing, and collection procedures applicable to the School District and counties in which it is located. As described under "SECURITY FOR THE SERIES 2004A BONDS – Pledged Taxes," the Pledged Taxes, to the extent they are levied and collected, will be derived from the proceeds of ad valorem taxes levied by the Board on all taxable property within the School District.

Substantially all (approximately 99.98%) of the "Equalized Assessed Valuation" (described below) of taxable property in the School District is located in Cook County (the "County"). The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption and elsewhere in this Official Statement with respect to taxable property of the School District does not reflect the portion situated in DuPage County. The Illinois laws relating to real property are contained in the Illinois Property Tax Code, 35 ILCS 200/1-1, *et seq*., as amended (the "Property Tax Code").

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2003. The suburbs in the northern and northwestern portions of the County will be reassessed in tax year 2004. The suburbs in the western and southern portions of the County will be reassessed in tax year 2005.

Pursuant to the Cook County Classification Ordinance, real property in the County is separated into nine classifications for assessment purposes. After the Assessor establishes the fair cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the "Assessed Valuation") for the parcel. The current classification percentages range from 16 percent for certain residential, commercial and industrial properties to 36 percent and 38 percent, respectively, for other industrial and commercial property.

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by filing a complaint with the Cook County Board of Review (the "Board of Review"). The Board of Review consists of three commissioners, each elected by an election district in Cook County. The Board of Review is empowered to review and adjust Assessed Valuations set by the Assessor.

Owners of property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a statewide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Depending on the amount of the proposed change in Assessed Valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

In March 2000 and August 2001, the PTAB rendered two series of decisions in which it granted reduced Assessed Valuations to the owners of certain real property by employing lower levels of assessment. In the March 2000 decisions, the PTAB elected to utilize the median levels of assessment derived from the Illinois Department of Revenue's sales-ratio studies (the "Sales-Ratio Studies") as the mechanism for determining correct assessment levels, instead of those set forth in the Cook County Real Property Assessment Classification Ordinance (the "Classification Ordinance"). Use of the Sales-Ratio Studies resulted in a lower assessment level than required by the Classification Ordinance. In its August 2001 decisions, after examining the Sales Ratio Studies, the PTAB held that the Assessor's assessment practices violated a provision of the State Constitution, which limits the level of assessment of the highest class of property, in a county that classifies property, to two and one-half times the level of assessment of the lowest class of property in that county. As a result, the PTAB established a maximum assessment level that is significantly below the assessment levels for commercial and industrial property currently set forth in the Classification Ordinance.

The Board of Review, through the Cook County State's Attorney Office, appealed the March 2000 decision and August 2001 decision of the PTAB to the Illinois Appellate Court (the "Appellate Court"). On August 20, 2002, the Appellate Court issued an opinion affirming in part and reversing in part the March 2000 decisions concerning the PTAB's use of the Sales-Ratio Studies. Shortly thereafter, the PTAB filed a petition for leave to appeal with the Illinois Supreme Court asking the Court to review the Appellate Court's decision. On October 7, 2003, the Illinois Supreme Court denied the PTAB's petition for leave to appeal. The PTAB then filed a motion asking the Court to reconsider the denial of the petition for leave to appeal. On or about November 7, 2003, the Court denied the motion requesting reconsideration of the denial of the petition for leave to appeal.

In November of 2002, the Appellate Court heard oral argument on the PTAB's August 2001 decisions concerning the two and one-half times level of assessment. In December of 2003, the Appellate Court issued its decision and remanded the cases to the PTAB with directions to apply the level of assessment contained in the Classification Ordinance, concluding that the taxpayer did not timely raise proper challenges so as to justify the relief granted. In reaching this conclusion, the Court did not consider the PTAB's reading of the constitutional ratio limitation or the PTAB's use of Sales-Ratio Studies as authority to deviate from the

Classification Ordinance. Both the PTAB and the property owner have appealed the Appellate Court's December 2003 decision to the Illinois Supreme Court. Those appeals are currently pending with the Court.

In both of its decisions, the Appellate Court did not necessarily foreclose a taxpayer from proving the validity of the Sales-Ratio Studies and establishing a level of assessment for County property types other than the levels of assessment indicated by the Classification Ordinance. It did, however, reject the argument that the PTAB may take "judicial notice" of the Sales-Ratio Studies.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Value, and thus reduce the amount of taxes due, by issuing a certificate of error.

All reviews of assessments, whether before the Board of Review, the PTAB or the courts are decided on a case-by-case basis.

Equalization. After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year (including any revisions made by the Board of Review), the Illinois Department of Revenue reviews the assessments and determines an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county. The purpose of equalization is to bring the aggregate assessed value of all real estate in each county, except certain farmland and undeveloped coal, to the statutory requirement of 33-1/3 percent of estimated fair cash value. Adjustments in Assessed Valuation made by the PTAB or the courts are not reflected in the Equalization Factor. The Assessed Valuation of each parcel of real estate in the County is multiplied by the County's Equalization Factor to determine the parcel's equalized assessed valuation (the "Equalized Assessed Valuation").

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See "– Property Tax Extension Limitation Law; Issuance of Alternate Bonds" below. For a listing of the Equalization Factors for the ten years ended December 31, 2002, see "– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1993-2002."

Exemptions. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of $4,500. Additional exemptions exist for (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by $2,500, and (ii) disabled veterans, with the Assessor authorized annually to exempt up to

$58,000 of the Assessed Valuation of certain property owned and used exclusively by such veterans or their spouses for residential purposes. A homestead improvement exemption allows homeowners to exempt up to $45,000 of the increase in the fair cash value of their residence due to certain home improvements to an existing structure without increasing the Assessed Valuation of their property for at least four years. For rehabilitation of certain historic property, the Equalized Assessed Valuation is limited for eight years to the value when the rehabilitation work began. The Senior Citizens Tax Freeze Homestead Exemption freezes property tax assessments for homeowners who are 65 and older and have annual incomes of $40,000 or less. Certain property is also exempt from taxation on the basis of ownership and/or use.

Additionally, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, longtime, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. On June 5, 2001, the County enacted the Longtime Homeowner Exemption Ordinance, which provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption of certain homeowners who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), and whose annual household income for the year of assessment does not exceed 115% of the Chicago Primary Metropolitan Statistical Area median income as defined by United States Department of Housing and Urban Development.

Tax Levy. There are over 800 units of local government (the "Units") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the County are the Board, the City, the Park District, the Authority, the Community College District, the Water Reclamation District, the County and the Forest Preserve District.

As part of the annual budgetary process of the Units, each year in which the determination is made to levy real estate taxes, proceedings are adopted by the governing body of each Unit. The tax levy proceedings impose the Units' respective real estate taxes in terms of a dollar amount. Each Unit certifies its real estate tax levy, as established by the proceedings, to the County Clerk's Office. The remaining administration and collection of the real estate taxes is statutorily assigned to the County Clerk and the County Treasurer, who is also the County Collector.

After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit by dividing the levy of each Unit by the Assessment Base of the respective Unit. If any tax rate thus calculated or any component of such a tax rate (such as a levy for a particular fund) exceeds any applicable statutory rate limit, the County Clerk disregards the excessive rate and applies the maximum rate permitted by law.

The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all the Units having jurisdiction over the particular

parcel. The County Clerk enters in the books prepared for the County Collector (the "Warrant Books") the tax (determined by multiplying that total tax rate by the Equalized Assessed Valuation of that parcel), along with the tax rates, the Assessed Valuation and the Equalized Assessed Valuation. The Warrant Books are the County Collector's authority for the collection of taxes and are used by the County Collector as the basis for issuing tax bills to all property owners.

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the last 10 years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) has not been later than November 3. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years.

The County may provide for tax bills to be payable in four installments instead of two. The County has not determined to require payment of tax bills in four installments. During the periods of peak collections, tax receipts are forwarded to each Unit weekly.

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court and applies for a judgment for all unpaid taxes. The court order resulting from the application for judgment provides for an annual sale of all unpaid taxes shown on the year's Warrant Books (the "Annual Tax Sale"). The Annual Tax Sale is a public sale, at which time successful tax buyers pay the unpaid taxes plus penalties. Unpaid taxes accrue penalties at the rate of 1.5 percent per month from their due date until the date of sale. Taxpayers can redeem their property by paying the amount paid at the sale, plus a maximum of 18 percent for each six-month period after the sale. If no redemption is made within the applicable redemption period (ranging from six months to two and one-half years depending on the type and occupancy of the property) and the tax buyer files a petition in Circuit Court, notifying the necessary parties in accordance with applicable law, the tax buyer receives a deed to the property. In addition, there are miscellaneous statutory provisions for foreclosure of tax liens.

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited to the State and are eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes interest and certain other costs to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale.

A scavenger sale (the "Scavenger Sale"), like the Annual Tax Sale, is a sale of unpaid taxes. A Scavenger Sale is scheduled to be held every two years on all property in which taxes are delinquent for two or more years. The sale price of the unpaid taxes is the amount bid at the Scavenger Sale, which may be less than the amount of the delinquent taxes. Redemption periods vary from six months to two and one-half years depending upon the type and occupancy of the property.

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

The Illinois Property Tax Extension Limitation Law, previously applicable only to non-home rule taxing districts located in DuPage, Kane, Lake, McHenry and Will Counties, was extended in 1995 to non-home rule taxing districts in Cook County, including the Board. The effects of the Limitation Law are to limit or retard the growth in the amount of property taxes that can be extended for a non-home rule taxing body and to impose direct referendum requirements upon the issuance of certain types of general obligation bonds by such non-home rule taxing bodies.

The Limitation Law specifically limits the annual growth in property tax extensions for the Board to the lesser of 5% or the percentage increase in the Consumer Price Index for All Urban Consumers during the calendar year preceding the relevant levy year. Generally, extensions can be increased beyond this limitation only due to increases in the equalized assessed value attributable to new construction and referendum approval of tax or limitation rate increases.

The Limitation Law requires the Cook County Clerk, in extending taxes for taxing districts in Cook County, including the Board, to use the Equalized Assessed Valuation of all property within the taxing district for the levy year prior to the levy year for which taxes are then being extended.

The Limitation Law (i) authorizes the issuance of "limited bonds" payable from non-home rule taxing districts' "debt service extension base"; and (ii) excludes certain types of general obligation bonds, known as "alternate bonds" issued pursuant to Section 15 of the Debt Reform Act, from the direct referendum requirements of the Limitation Law. Pursuant to the provisions of this amendatory legislation and the Debt Reform Act, the Series 2004A Bonds are being issued as alternate bonds. For additional information, see "INTRODUCTION – Prior Alternate Bonds." The extension and collection of the Pledged Taxes, to the extent received, for the payment of debt service on the Series 2004A Bonds are not limited or restricted in any way by the provisions of the Limitation Law.

Illinois Truth in Taxation Law. The Illinois Truth in Taxation Law imposes procedural limitations on a Unit's real estate taxing powers and requires that notice in the prescribed form must be published if the aggregate annual levy is estimated to exceed 105% of the levy of the preceding year, exclusive of levies for debt service, election cost and payments due under public building commission leases. A public hearing must also be held, which may not be in conjunction with the budget hearing of the Unit on the adoption of the Unit's annual levy. No amount in excess of 105% of the preceding year's levy may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by a certification of compliance with the foregoing procedures. This law does not impose any limitations on the rate or the amount of the levy to pay principal of and interest on the Unit's general obligation bonds and notes.

Bond Issue Notification Act

The Bond Issue Notification Act of the State of Illinois (the "Bond Issue Notification Act") requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The

public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony.

Property Tax Information

The tables on the following pages provide statistical data regarding the property tax base of the Board and the City; the tax rates, tax levies and tax collections for the Board; and the tax levies and property tax supported debt for overlapping units of government in Cook County.

ASSESSED, EQUALIZED ASSESSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY 1993-2002
(Dollars in Thousands)

Tax Year Levy	Assessed Values[1]					State Equalization Factor[2]	Total Equalized Assessed Value[3]	Total Estimated Fair Cash Value[4]	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
	Class 2[5]	Class 3[6]	Class 5[7]	Other[8]	Total				
2002	$9,221,622	$1,865,646	$8,878,142	$349,371	$20,314,781	2.4689	$45,330,892	$189,362,475	23.94%
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
1998	6,646,198	2,047,577	7,848,335	267,006	16,809,116	2.1799	33,940,146	112,606,894	30.16
1997	6,554,717	2,077,044	7,809,486	262,032	16,703,279	2.1489	33,349,557	106,282,207	31.40
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.64
1995	5,769,559	1,979,007	7,374,840	241,356	15,364,762	2.1243	30,381,480	97,291,356	31.23
1994	5,701,638	2,016,367	7,357,659	244,451	15,320,115	2.1135	30,090,355	94,181,737	31.97
1993	5,095,776	1,878,201	7,135,798	250,349	14,360,124	2.1407	28,665,638	94,219,759	30.42

(1) Source: Cook County Assessor's Office.
(2) Source: Illinois Department of Revenue.
(3) Source: Cook County Clerk's Office. Calculations are net of exemptions and include assessment of pollution control facilities. Excludes DuPage County Valuation.
(4) Source: The Civic Federation. Excludes railroad property.
(5) Residential, six units and under.
(6) Residential, seven units and over and mixed-use.
(7) Industrial/Commercial.
(8) Vacant, not-for-profit and industrial/commercial incentive classes.

Board's Property Tax Extensions and Collections
(Dollars in Thousands)

		First Year Collections		Cumulative Collections[1]	
Levy Year[2]	**Extension**	**Amount**	**Percent**	**Amount**	**Percent**
2002	$1,614,473	$1,548,369	95.9%	$1,548,369	95.9%
2001	1,571,962	1,519,630	96.6	1,562,978	99.4
2000	1,503,488	1,446,847	96.2	1,485,977	98.8
1999	1,451,206	1,408,124	97.0	1,430,602	98.6
1998	1,416,346	1,317,872	93.0	1,387,869	98.0
1997	1,362,211	1,304,701	95.8	1,333,626	97.9
1996	1,331,437	1,293,278	97.1	1,287,688	96.7
1995	1,291,784	1,240,528	96.0	1,243,782	96.3
1994	1,253,800	1,189,147	94.8	1,201,737	95.8
1993	1,239,344	1,193,613	96.3	1,194,207	96.4

(1) Reflects collections through December 31, 2003.
(2) Year of extension is the year after the year of levy.

Source: Board of Education of the City of Chicago

Real Property Tax Rates[1]

(per $100 equalized assessed valuation)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Tax Rates by Board Fund:[2]										
Educational	$2.444	$2.262	$3.196	$3.202	$2.998	$3.059	$3.000	$2.756	$2.712	$2.670
Special Education	0.039	0.038	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare	0.028	0.030	0.034	0.023	0.022	0.044	0.048	0.047	0.031	0.017
Agricultural Science	0.003	0.008	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Building	0.439	0.429	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Playground and Recreational	0.078	0.076	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Textbook	0.107	0.105	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.207	0.229	0.254	0.222	0.246	0.192	0.206	0.141	0.191	0.150
Teachers' Pension	0.254	0.248	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance	0.538	0.565	0.594	0.709	0.719	0.722	0.701	0.640	0.685	0.609
Bond Redemption & Interest	0.013	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.173	0.177	0.173	0.171	0.099	0.155	0.149	0.130	0.125	0.116
Board Subtotal	$4.323	$4.167	$4.251	$4.327	$4.084	$4.172	$4.104	$3.714	$3.744	$3.562
Other Major Government Units:										
City of Chicago	2.228	2.158	2.131	2.182	2.024	1.998	1.860	1.660	1.637	1.591
Community College District	0.381	0.372	0.376	0.377	0.356	0.354	0.347	0.311	0.307	0.280
School Finance Authority	0.150	0.265	0.296	0.291	0.270	0.268	0.255	0.223	0.223	0.177
Chicago Park District	0.778	0.741	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545
Water Reclamation District	0.471	0.495	0.495	0.492	0.451	0.444	0.419	0.415	0.401	0.371
Cook County	0.971	0.993	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690
Cook County Forest Preserve	0.072	0.073	0.072	0.074	0.074	0.072	0.070	0.069	0.067	0.061
Other Unit Subtotal	$5.051	$5.097	$5.094	$5.126	$4.759	$4.700	$4.432	$4.074	$3.948	$3.715
TOTAL	$9.374	$9.264	$9.345	$9.453	$8.843	$8.872	$8.536	$7.788	$7.692	$7.277

(1) Source: Cook County Clerk's Office – tax rates by levy year.

(2) The 1995 Amendatory Act changed the tax rate limitations by consolidating the funds for special education, agricultural science, building, playground and recreational, textbook and teachers pension into the educational fund. Subsequent School Code amendments made this consolidation permanent.

TAX MATTERS

General

In the opinion of Kutak Rock LLP and Charity & Associates, P.C., both of Chicago, Illinois, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2004A Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes compliance by the Board with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986 (the "Code") that must be met subsequent to the issuance of the Series 2004A Bonds. Failure to comply with such requirements could cause interest on the Series 2004A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004A Bonds. The Board has covenanted to comply with such requirements. Co-Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Interest on the Series 2004A Bonds is not exempt from income taxes currently imposed by the State of Illinois.

Notwithstanding Co-Bond Counsel's opinion that interest on the Series 2004A Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Series 2004A Bonds may otherwise affect the federal income tax liability of the owners of the Series 2004A Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Co-Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2004A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2004A Bonds.

Changes in Federal Tax Law

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2004A 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. Purchasers of the Series 2004A Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Co-Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2004A Bonds and Co-Bond

Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

Original Issue Premium

The Series 2004A Bonds (collectively, the "Premium Bonds") are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

RATINGS

The Series 2004A Bonds have received ratings of "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Services ("Moody's") based on the Policy to be issued by the Bond Insurer.

The Series 2004A Bonds have also received ratings of "A+" by Standard & Poor's, "A+" by Fitch and "A2" by Moody's based upon the creditworthiness of the Board and without regard to bond insurance or other credit enhancement.

A rating reflects only the view of the rating agency giving such rating. Any explanation of the significance of such ratings may be obtained only from the respective rating agency. There is no assurance that any such rating will be maintained for any given period of time or that any such rating may not be raised, lowered or withdrawn entirely by the respective rating agency if in its judgment circumstances so warrant. Any change in or withdrawal of any such rating may have an effect on the price at which the Series 2004A Bonds may be resold.

FINANCIAL STATEMENTS

The financial statements of the Board as of and for the fiscal year ended June 30, 2003, included in APPENDIX A to this Official Statement, have been audited by Deloitte & Touche LLP, independent auditors, as indicated in their report included in APPENDIX A.

FINANCIAL ADVISORS

The Board has engaged A.C. Advisory, Inc. and Kirkpatrick Pettis as Financial Advisors in connection with the authorization, issuance and sale of the Series 2004A Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the Series 2004A Bonds and have reviewed certain legal documents, including this Official Statement, with respect to financial matters. Unless indicated to the contrary, the Financial Advisors have not independently verified the factual information contained in this Official Statement, but have relied on the information supplied by the Board and other sources.

UNDERWRITING

Bear, Stearns & Co. Inc., as Representative of the Underwriters identified on the cover page of this Official Statement, has agreed to purchase the Series 2004A Bonds at an aggregate purchase price of $225,235,720.45 (which represents par, plus original issue premium of $21,042,734.25, less an Underwriters' discount of $1,217,013.80). The Underwriters reserve the right to join with dealers and other Underwriters in offering the Series 2004A Bonds to the public.

The obligation of the Underwriters to accept delivery of and pay for the Series 2004A Bonds is subject to various conditions set forth in the Contract of Purchase relating to the Series 2004A Bonds, including, among others, the delivery of specified opinions of counsel and a certificate of the Board that there has been no material adverse changes in its conditions (financial or otherwise) from that set forth in this Official Statement.

CERTAIN VERIFICATIONS

Causey Demgen & Moore Inc. (the "Verifier"), independent certified public accountants, upon delivery of the Series 2004A Bonds, will deliver to the Underwriters a report stating that the firm, at the request of the Board and the Underwriters, has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in Governmental Obligations, together with any initial cash deposit, to meet the timely payment of the applicable principal or redemption price of and interest on the Refunded Bonds, as described under "PLAN OF FINANCE," and (ii) the actuarial yields on the Series 2004A Bonds and the Government Obligations; such computations with respect to such yields to be used to support the conclusion of Co-Bond Counsel that the Series 2004A Bonds are not "arbitrage bonds" under Section 148 of the Code. The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Series 2004A Bonds.

CERTAIN LEGAL MATTERS

Issuance of the Series 2004A Bonds is subject to the issuance of the approving legal opinions of Kutak Rock LLP and Charity & Associates, P.C., both of Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinion is included herein as APPENDIX D. Certain legal matters will be passed upon for the Board by Ruth M. Moscovitch, General Counsel, and

by Katten Muchin Zavis Rosenman, Chicago, Illinois; and for the Underwriters by their Co-Counsel, Burke Burns & Pinelli, Ltd. and Burris, Wright, Slaughter & Tom, LLC, both of Chicago, Illinois.

LITIGATION

General

The Board is involved in numerous lawsuits that arise out of the ordinary course of operating the school system, including, but not limited to, the lawsuits described in this Official Statement. Some of the cases pending against the Board involve claims for substantial monies. As is true with any complex litigation, neither the Board nor its counsel is able to predict either the eventual outcome of such litigation or its impact on the Board's finances. The Board has available to it a tort liability tax levy to pay tort judgments and settlements. This tort liability tax levy is unlimited as to rate, but subject to the limitations on the annual growth in property tax extensions of the Board imposed by the Property Tax Extension Limitation Law of the State, as amended. See "THE REAL PROPERTY TAX SYSTEM – Property Tax Extension Limitation Law; Issuance of Alternate Bonds."

Upon delivery of the Series 2004A Bonds, the Board will furnish a certificate to the effect that, among other things, there is no litigation pending in any court seeking to restrain or enjoin the issuance or delivery of the Series 2004A Bonds, or in any way contesting the validity or enforceability of the Series 2004A Bonds.

Pension Funding Litigation

In 1993, the Public School Teachers' Pension and Retirement Fund ("Fund") filed a lawsuit claiming that the Board failed to make certain statutorily required contributions to the Fund in the fiscal years ending August 31 of 1992, 1993 and 1994. The Fund's complaint alleges three basic claims: First, that the amounts paid to the Fund by the Board with respect to teachers working in federal programs for which it receives federal funds, do not count as employer contributions under the Pension Code, notwithstanding that employee contributions for such teachers do count. The amounts of money implicated in the fiscal years 1991, 1992, and 1993 were $7,972,439, $8,473,930 and $10,158,343 respectively. The Fund's second claim involves employer contributions made by the Board for teachers electing early retirement. The Board contributed $22,208,683.59 in August 1993 on behalf of those employees who elected early retirement that month. This contribution was paid under the lump sum plan for a number of retirees and under the installment plan (i.e., quarterly payments over a five-year period) for the remaining retirees. The Fund claims that this payment did not count as an employer contribution for purposes of the Pension Code even though the teacher contributions are deemed employee contributions. Based on this assertion, the Fund would have the Board make a "double" payment of the employer contribution. The Fund's third claim concerns the Pension Code provision which allows retired teachers to purchase constructive service credit for time spent in military service (either before becoming a teacher or after leaving the Board). The Pension Code requires retired teachers to pay all costs to the Fund for such added credit that is "an amount equal to the employer's normal cost of benefits accrued from such service plus interest." The Fund, however, contends that the payments for military service credits including the employer's normal

cost of benefits are employee contributions, totaling $1,633,476 and $17,122 in fiscal years 1992 and 1993.

In December, 1996, the Board sought partial summary judgment determinative that the payments made to the Fund as employer contributions for teachers taking early retirement and that its payments to the Fund for teachers in federally-assisted programs are employer contributions for purposes of the deficiency provision of the Pension Code. Further, the motion sought a determination that retired teachers' payments for military service credit should not be treated as employee contributions requiring an employer match.

On February 28, 1997, the Circuit Court of Cook County granted the Board's partial Motion for Summary Judgment in all material aspects. The court reserved for later resolution the question whether the Board would owe interest on certain employee contributions for employees retiring early for alleged late payment. No final judgment has been rendered by the court in this case as of the date hereof. The Board has undertaken settlement discussions with the Fund in order to resolve this matter.

Teacher Tenure Litigation

Maurice Land, et al. v. Board of Education of the City of Chicago, et al., is a lawsuit filed in 1999 against the Board in which the plaintiffs are teachers laid-off pursuant to the Board's policy on reassignment and layoff of regularly appointed and certified teachers. Some of the plaintiffs were those who lost their assignments during the 1997 reconstitution of seven high schools. The complaint is for mandamus, declaratory and injunctive relief. The complaint asserts violation of the School Code provision relating to tenure. The trial court granted the Board's motion for summary judgment and the Chicago Teachers Union ("CTU") sought review in the Illinois Appellate Court.

On August 27, 2001, the Appellate Court issued an opinion affirming in part and reversing in part the Circuit Court's decision. The Appellate Court concluded, among other things, that (i) the Board has the statutory power to layoff tenured teachers, including the plaintiffs, (ii) the Board complied with the policy in laying off the plaintiffs, and (iii) the layoffs did not violate plaintiffs' due process rights. With respect to each of these issues (and others), the Appellate Court affirmed the Circuit Court's grant of summary judgment in favor of the Board. However, the Appellate Court also held that although "the Board may establish a layoff policy…, [the Board] may not through that policy delegate its absolute layoff power to school administrators." The Court remanded the case for further proceedings related to the delegation issue and the factual issues relating to the employment record of one of the plaintiffs.

On September 17, 2001, the Board filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on December 20, 2001. Thereafter, on February 6, 2002, the Illinois Supreme Court granted the Board's petition seeking appeal of the Appellate Court's decision. On November 21, 2002, the Illinois Supreme Court, among other things, affirmed the Appellate Court's holding that tenured teachers can be laid off, and agreed that he Board could delegate its layoff authority. However, the Illinois Supreme Court also held that the Board was prohibited from delegating its layoff authority to school principals, and explicitly did not decide "whether the [layoff] authority may be delegated to officers or administrators other than the general superintendent and attorney." The case was

remanded to the Circuit Court to determine "whether the layoff authority was delegated and, if so, to whom."

Should the CTU ultimately prevail, the Court could order reinstatement and back wages for all of the Plaintiffs. The total amount of exposure may be significant, depending on the length of time that passes from the date of the layoff to the date of an ordered reinstatement. Given the current status of these matters, it is impossible to determine whether an ultimate finding of liability against the Board is probable or the exact cost associated with any such finding.

Jones, et. al. v. Board of Education 00 CH 093 74 is an action brought by the CTU essentially repeating the claims asserted in Land. Based upon the decision in a previous matter and the pendency of Land, the Board filed a motion to stay this action, arguing that the legal and factual issues raised in this action will be resolved by the final decisions in the previously filed lawsuits. The Court granted the Board's motion on August 16, 2000, granting a stay of Jones in all respects. It is unlikely that this action would give rise to liability not contemplated in the discussion of the Land litigation. Based upon agreement of the parties, the Land case and the Jones case were consolidated.

Principal Tenure Litigation

Michael Jacobson, Alvin Miller, et al. v. Board of Education is a class action brought on behalf of formerly tenured school principals who lost their positions pursuant to the provisions of Public Act 85-1418. The class was certified on September 15, 1997.

Public Act 85-1418, which became effective May 1,1990, provided that the newly created Local School Councils ("LSC") had the power to select the principals of their schools; pursuant to this authority, they could choose to replace formerly tenured principals who had been assigned to their schools prior to the enactment of the statute giving LSC this authority. On November 30, 1990, the Illinois Supreme Court held that Public Act 85-1418 was unconstitutional in its entirety for reasons unrelated to principal selection. The legislature replaced the unconstitutional act with Public Act 86-1477, effective January 11, 1991; the new act contained substantially the same language as the old regarding principal selection.

In Jacobson, the plaintiffs alleged that all tenured principals who lost their positions between April 15, 1990 and January 11,1991 were injured in violation of certain contractual rights and were, therefore, entitled to back salary and compensation for lost benefits from the date they were terminated through January 11, 1991. On December 14, 1999, the Circuit Court granted summary judgment in favor of the Board, agreeing with the Board's argument that plaintiffs had no contract with the Board, and thus no basis for their breach of contract claim against the Board.

The plaintiffs appealed, and the Appellate Court found that plaintiffs had pled "an employment relationship" that was "inherently" contractual. Based upon this conclusion, the Appellate Court entered judgment as to liability in favor of the plaintiffs. The case has been remanded to the trial court for a determination of the amount of damages owed to the plaintiffs.

Wrongful Death Claim

In Della Coleman, as Special Administrator of the Estate of Derrick Spencer v. Board of Education, the family of Derrick Spencer, an eighth grade student, filed suit against the Board and Quality Inn Hotels for damages arising from Derrick's drowning while on a field trip along with other eighth grade students from Goldblatt Elementary School. The drowning occurred in Ohio on May 24, 2002, after one of Derrick's classmates pushed him into the pool at the Quality Inn Hotel. The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at Quality Inn Hotel; failing to assess Derrick's swimming skills; failing to monitor the Goldblatt students in and around the pool; failing to follow Board policies regarding school trips; and failing to protect Derrick from the dangerous water conditions at the Quality Inn.

The Board will raise tort immunities as a defense to these claims, but the outcome of such a defense cannot be predicted. To the extent that the case results in a jury trial, a finding of liability on the part of the Board cannot be predicted as either probable nor remote at this juncture.

Dispute Over Pension Fund Claims for Reimbursement

A dispute exists between the Board and the Public School Teachers' Pension and Retirement Fund (the "Fund") regarding whether the Board has the right under the Illinois Pension Code, to require employees who want to take advantage of the Early Retirement Option ("ERO") to apply for it by the middle of May of any year that the ERO is offered to teachers. The Board is required to contribute a specified amount to the Fund for each employee selecting the ERO.

The Fund has notified the Board of its position that the Board does not have a right to impose a deadline date on eligible employees to apply for the ERO. The Fund has represented that it intends to reach out to those employees who would have been eligible for the ERO under its analysis and offer them the opportunity to retire. Under this scenario, thirty percent (30%) of all teachers who have reached the age of 55 years and have at least 20 years, but less than 34 years, of service credit would be able to take advantage of the ERO in the years it was authorized by the Board. The Fund has also represented that it will send the Board an invoice for the Board's contribution, and would also, if the Board refuses to pay, take legal action. No legal action has been taken by the Fund against the Board as of the date of this Official Statement.

Should the Fund's interpretation be found correct in a court action, the Board will be required to pay the Fund the specified contribution for each employee who elects the ERO. While it is not possible to know with any certainty the number of employees who will elect the ERO under these circumstances, if the maximum number (30% of eligible employees) take advantage of it, the Board's estimated liability could be approximately $38,000,000. The Board is unable to predict the outcome of this dispute at the present time.

CONTINUING DISCLOSURE UNDERTAKING

The Board will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the Beneficial Owners of the Series 2004A 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 Board is in compliance with undertakings previously entered into by it pursuant to the Rule. A failure by the Board to comply with the Undertaking will not constitute an event of default under the Bond Resolution or the Indenture, and Beneficial Owners of the Series 2004A Bonds are limited to the remedies described in the Undertaking. See "– Consequences of Failure of the Board to Provide Information."

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

Annual Financial Information Disclosure

The Board 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 (each, a "NRMSIR") then recognized by the Commission for purposes of the Rule and to any public or private repository designated by the State as the state depository (the "SID") and recognized as such by the Commission for purposes of the Rule. The Board is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking.

"Annual Financial Information" means historical information generally consistent with information of the type set forth in this Official Statement under the following headings:

BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System
General Operating Fund Revenues, Expenditures, Other Financing Sources and Changes in Fund Balances for the Board
Board's Debt Service Schedule

The Annual Financial Information, excluding the Audited Financial Statements, will be provided to each NRMSIR and to the SID, if any, 210 days after the last day of the Board's fiscal year.

"Audited Financial Statements" means the general purpose financial statements of the Board which are in conformity with generally accepted accounting principles and audited by independent auditors. The Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, within 30 days after availability to the Board.

Events Notification; Material Events Disclosure

The Board 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) that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The "Events" are (i) debt service payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Series 2004A Bonds; (vii) modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Series 2004A Bonds; and (xi) rating changes.

Consequences of Failure to Provide Information

The Board 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 the Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

A default under the Undertaking shall not be deemed an event of default under the Bond Resolution or the Indenture, and the sole remedy in the event of any failure of the Board to comply with the Undertaking shall be an action to compel performance. A failure by the Board 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 Series 2004A Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Series 2004A Bonds and their market price.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the Board may amend the Undertaking, and any provision thereof may be waived, if:

(a) (i) 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 Board, or type of business conducted;

(ii) 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

(iii) The amendment or waiver does not materially impair the interests of the Beneficial Owners of the Series 2004A Bonds, as determined by parties unaffiliated with the Board, (such as the Trustee or Bond Counsel), or by the approving vote of the owners of the Series 2004A Bonds pursuant to the terms of the Indenture at the time of the amendment; or

(b) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

The Undertaking shall be terminated if the Board shall no longer have any legal liability for any obligation on or relating to repayment of the Series 2004A Bonds under the Indenture. If this provision is applicable, the Board shall each give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

Dissemination Agent

The Board 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 agent, with or without appointing a successor dissemination agent.

AUTHORIZATION AND MISCELLANEOUS

The Board has authorized the distribution of this Official Statement. This Official Statement has been duly executed and delivered on behalf of the Board.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: /s/ John Maiorca
Chief Financial Officer

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APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2003

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Education of the City of Chicago:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS", a body politic and corporate of the State of Illinois) as of and for the year ended June 30, 2003, which collectively comprise the CPS' basic financial statements. These financial statements are the responsibility of the CPS' management. Our responsibility is to express an opinion on the respective 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 respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chicago Public Schools as of June 30, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the General Operating Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is 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.

Deloitte & Touche LLP

December 12, 2003

Member of
Deloitte Touche Tohmatsu

INTRODUCTION

Our discussion and analysis of Chicago Public Schools' (CPS) financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2003. The intent of this management discussion and analysis is to look at CPS' financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the basic financial statements to enhance their understanding of CPS' financial performance.

This is the third year CPS has prepared its annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements. The basic financial statements contain three components:

1) Government-wide financial statements including the Statement Of Net Assets and the Statement Of Activities which provide a broad, long-term overview of CPS' finances,

2) Fund financial statements including the balance sheets that provide a greater level of detail of revenues and expenditures and focus on how well CPS has performed in the short term in the most significant funds, and

3) Notes to the basic financial statements.

This report presents the financial highlights for last year and contains other supplementary information.

OVERALL ANALYSIS

Chicago Public Schools is the third largest school district in the United States, serving over 438,000 students with an operating budget of almost $3.67 billion and a capital budget of $669 million. In general, the financial operations of CPS have performed well during uncertain financial times with varying financial indicators and results. In those revenue areas that are directly linked to the economy, CPS received lower revenues, but did not experience any major disruptions. On the expenditure side, CPS' monitoring of the budget resulted in a mid-year correction with administrative staff reductions and budget cuts which served to reduce overall expenditures. At the end of fiscal year 2003, CPS again maintained a strong cash position.

In summary, CPS' overall financial position remains strong, stable and consistent. It should be noted that the positive financial performance was achieved even as the CPS implemented new educational programs to improve academic achievement.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- On the government-wide financial statements:
  - Total net assets decreased from $1.16 billion in fiscal year 2002 to $1.0 billion in fiscal year 2003, a decrease of approximately $155.8 million, or 13.4%.
  - Total revenues increased $107.2 million from $3.82 billion in fiscal year 2002 to $3.93 billion in fiscal year 2003, or 2.7%.

- Total expenses increased $67.2 million from $4.02 billion in fiscal year 2002 to $4.09 billion in fiscal year 2003, or 1.7%.

- On the fund financial statements:

  - Ending fund balance decreased from $1.26 billion in fiscal year 2002 to $1.16 billion in fiscal year 2003, a decrease of $101.6 million, or 8.1%.

  - In the General Operating Fund, unreserved funds decreased from $209.9 million in fiscal year 2002 to $208.4 million in 2003, an decrease of $1.5 million, or .7%.

  - Total General Operating Fund budgeted resources and final appropriations exceeded actual revenues and expenditures by $0.2 million.

OVERVIEW OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the school district's finances in a manner similar to a private sector business. The Statement of Net Assets and the Statement of Activities provide information about the activities of the school district as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The ***Statement of Activities*** presents information showing how net assets changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows.* Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave).

Both of the government-wide financial statements distinguish functions of the CPS that are principally supported by taxes and intergovernmental revenues *(governmental activities)*.

Financial Analysis of CPS as a Whole

All of CPS' services are reported in the government-wide financial statements, including instruction, pupil support services, instructional support services, administrative support services, facility support services, and food services. Property taxes, replacement taxes, state aid, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here.

Statement of Net Assets
(Millions of dollars)

	Governmental Activities			
	2003	**2002**	**Difference**	**% Change**
Current assets	$ 2,882	$ 2,877	$ 5	0.2%
Capital assets, net	3,882	3,596	286	8.0
Total Assets	$ 6,764	$ 6,473	$ 291	4.5
Current liabilities	$ 830	$ 765	$ 65	8.5
Long-term liabilities	4,930	4,548	382	8.4
Total Liabilities	$ 5,760	$ 5,313	$ 447	8.4
Net Assets:				
Invested in capital assets Net of related debt	$ 392	$ 401	$ (9)	(2.2)
Debt service	457	480	(23)	(4.8)
Specific purposes	88	103	(15)	(14.6)
Unrestricted	67	176	(109)	(61.9)
Total Net Assets	$ 1,004	$ 1,160	$ (156)	(13.4)

- **Total assets** increased due to new school construction and other improvement projects as part of the CPS' Capital Improvement Program.

- **Capital assets, net of depreciation** increased $286.7 million or 8.0% over the prior fiscal year. This net increase represents $500.6 million of additions and other increases, $23.2 million of retirements and other reductions, net of $134.9 million of current year depreciation. Capital assets, net of depreciation, for fiscal year 2002 totaled $3.60 billion and $3.88 billion in fiscal year 2003. The increase is due to the continued progress of the Capital Improvement Program.

- **Long-term liabilities** comprise three components:

    - **Long-term debt** increased $255 million, or 7.0%. Total debt outstanding and capitalized leases were $3.63 billion in fiscal year 2002 and $3.88 billion in fiscal year 2003. In fiscal year 2003, CPS issued $309 million in Unlimited Tax Obligation Bonds ($260 million from Series 2003A,B and $49 million from Series 2002B) for continuation of the Capital Improvement Program.

    - **Accrued pension** increased to $894.7 million in fiscal year 2003 from $749.7 million in fiscal year 2002, an increase of $145 million, or 19.4%.

    - **Other long-term liabilities** decreased to $258.1 million in fiscal year 2003 from $268.9 million in fiscal year 2002, an decrease of $10.8 million, or 4.0%.

Statement of Activities
(Millions of dollars)

	Governmental Activities			
	2003	2002	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	$ 13	$ 11	$ 2	18.2%
Operating grants and contributions	764	688	76	11.0
Capital grants and contributions	154	160	(6)	(3.7)
Total Program Revenues	$ 931	$ 859	$ 72	8.4
General Revenues:				
Property taxes	$ 1,574	$ 1,533	$ 41	2.7
Replacement taxes	106	114	(8)	(7.0)
State aid	1,249	1,227	22	(1.8)
Interest and investment earnings	49	68	(19)	(27.9)
Miscellaneous	22	23	(1)	(4.3)
Total General Revenues	$ 3,000	$ 2,965	$ 35	1.2
Total Revenues	$ 3,931	$ 3,824	$ 107	2.8
Expenses:				
Instruction	$ 2,485	$ 2,438	$ 47	1.9
Support services				
Pupil support	333	329	4	1.2
Administrative support	169	157	12	7.6
Facility support	352	335	17	5.1
Instructional support	333	340	(7)	(2.1)
Food services	177	169	8	4.7
Community services	47	48	(1)	(2.1)
Interest expense	186	183	3	1.6
Other	5	21	(16)	(76.2)
Total Expenses	$ 4,087	$ 4,020	$ 67	1.7
Change in Net Assets	$ (156)	$ (196)	$ 40	

Total revenues increased $107.2 million primarily due to increases in property taxes, state aid and operating grants and contributions totaling $41.4 million, $21.6 million and $76.8 million, respectively. These increases were offset by decreases in replacement taxes and investments totaling $8.4 million and $18.9 million, respectively, due to the weak economy.

Total expenses increased $67.2 million primarily due to the increases in salaries of $61.8 million and $4.1 million in hospitalization benefits costs.

Capital Assets

At June 30, 2003, the CPS had $3.9 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase (including additions, deductions and depreciation) of $286.7 million, or 8.0%, from last year.

	Governmental Activities (000's)					
	2002	Additions	Retirements and Transfers to In-Service	2003	Difference	% Change
Land	$ 176,427	$ 24,792	$ (3,400)	$ 197,819	$ 21,392	12.1%
Buildings	4,923,123	197,070	(18,381)	5,101,812	178,689	3.6
Construction in progress	73,357	264,615	(73,357)	264,615	191,258	260.7
Equipment	53,559	14,142	(1,404)	66,297	12,738	23.8
Total Capital Assets	$ 5,226,466	$ 500,619	$ (96,542)	$ 5,630,543	$ 404,077	7.7
Less: Accumulated depreciation	(1,630,751)	(134,884)	17,499	(1,748,136)	(117,385)	7.2
Total Capital Assets, net	$ 3,595,715	$ 365,735	$ (79,043)	$ 3,882,407	$ 286,692	8.0

Capital assets increased due to the purchases of land and the continued progress of the Capital Improvement Program.

Completion of new school construction as of June 30, 2003 included the following schools: Anderson Academy, Cuffe Elementary, Field Elementary, McNair Elementary and Moos Elementary.

Long-term Debt and Capitalized Lease Obligations

As of June 30, 2003, the CPS had $3.88 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus $3.63 billion last year, an increase of 7.0%. A summary of the long-term debt and capitalized lease obligations are listed in the following table:

	Governmental Activities (Millions of Dollars)				
	2002	Issuances	Retirements	Accreted Interest	2003
Unlimited Tax General Obligation Bonds	$ 2,775	$ 309	$ (11)	$ 41	$ 3,114
Qualified Zone Academy Bonds	48	—	—	—	48
State Technology Revolving Loan	10	—	(8)	—	2
Asbestos Abatement Loans	12	—	(1)	—	11
Total	$ 2,845	$ 309	$ (20)	$ 41	$ 3,175
Capitalized Lease Obligations	789	5	(88)	—	706
Total Debt	$ 3,634	$ 314	$ (108)	$ 41	$ 3,881
Less: Current Year Portion					(109)
Net Premiums/(Discounts)					5
Total Long-Term Debt, Net					$ 3,777

In September 2002, CPS issued $48,970,000 in Unlimited Tax General Obligation Bonds (Series 2002A) at a premium of $2,748,775. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay interest and costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $46,968,972 in the Capital Improvement Fund and $3,878,761 of capitalized interest in the Debt Service Fund.

In February 2003, CPS issued $75,890,000 in Unlimited Tax General Obligation Bonds (Series 2003A) at a premium of $6,054,588 and $183,775,000 in Unlimited Tax General Obligation Bonds (Series 2003B). The

proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $262,125,571 in the Capital Improvement Fund.

Debt issuances in fiscal year 2003 bring the total debt issued by CPS in connection with the Capital Improvement Program to $3.0 billion.

The Chicago School Finance Authority (SFA) was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. The SFA issued debt to fund construction and provide working capital. The principal amount of the SFA bonds outstanding as of June 30, 2003, net of bonds advance refunded or defeased, is $458 million. The SFA bonds are not a direct or contingent obligation of the CPS and the 1995 Amendatory Act suspended the oversight powers of the SFA through the end of 2010.

Pension Funding

Employees of the CPS participate in either the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") or the Municipal Employees Annuity and Benefit Fund of Chicago (the "Annuity Fund").

The CPS' employer-required contribution to the Pension Fund, with the exception of federal funds, is determined by State statutes. As of June 30, 2002, the funded ratio of the Pension Fund is approximately 96.3% and the CPS has recorded an estimated pension liability of $894.7 million in the accompanying financial statements, as determined under generally accepted accounting principles. Because of the funded ratio, the CPS has no statutory employer-required contributions to the Pension Fund. The first year that CPS is expected to make a contribution to the Pension Fund under the statutory requirements is FY 2005.

All career service employees of the CPS, except CPS employees who are members of the Public School Teachers' Pension and Retirement Fund, participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Annuity Fund"). Covered employees are required by State statute to contribute 8.5% of their salary. In fiscal year 2003, as in previous fiscal years, the CPS paid a portion, 7%, or $30.4 million of the required employees' contribution for most employees.

OVERVIEW OF 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. CPS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All CPS funds are reported in the governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the fiscal year for spending in future years. Such information may be useful in evaluating a government's near-term financing requirements.

These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. These statements provide a detailed short-term view of the school district's operations and the services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in the fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The CPS' fund financial statements provide detailed information about the most significant funds — not the CPS as a whole. The CPS' governmental funds use the following accounting approach. All of the CPS' services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the CPS' operations and the services it provides.

CPS maintains three significant governmental funds: General Operating, Capital Projects, and Debt Service. The following schedule presents a summary of the general operating fund, capital projects fund and debt service fund revenues, and other financing sources by type for the period ended June 30, 2003 as compared to June 30, 2002. It also depicts the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

Revenues and Other Financing Sources

(Millions of dollars)	2003 Amount	2002 Amount	2003 Percent of Total	Increase (Decrease) from 2002	Percent Increase (Decrease) from 2002
Property taxes	$ 1,546	$ 1,480	36.9%	$ 66	4.5%
Replacement taxes	106	114	2.5	(8)	(7.0)
State aid	1,470	1,468	35.1	2	0.0
Federal aid	609	555	14.5	54	9.7
Investment income	49	68	1.2	(19)	(27.9)
Other	94	90	2.2	4	4.4
Subtotal	$ 3,874	$ 3,775	92.4%	$ 99	2.6
Other financing sources	317	233	7.6	84	36.1
Total	$ 4,191	$ 4,008	100.0%	$ 183	4.5

- **Property taxes** increased by $66 million from fiscal year 2002 due to a growing tax base and increases in tax levies which are subject to state legislated caps.
- **Personal property replacement taxes** decreased $8 million from fiscal year 2002, due to the condition of the economy.
- **Federal aid** increased by $54 million due to increased grant funding and subsidies.
- **Investment income** decreased by $19 million due to lower interest rates.

The following schedule represents a summary of the General Operating Fund, Capital Projects Fund, and Debt Service Fund expenditures for the fiscal year ended June 30, 2003 and 2002, and the percentage increase and decrease in relation to prior year amounts.

Expenditures

(Millions of dollars)	2003 Amount	2002 Amount	2003 Percent of Total	Increase (Decrease) from 2002	Percent Increase (Decrease) from 2002
Instruction	$ 2,215	$ 2,153	51.6%	$ 62	2.9%
Pupil support services	320	312	7.5	8	2.6
General support services	765	750	17.8	15	2.0
Food services	170	160	4.0	10	6.2
Community services	47	47	1.1	—	0.0
Teachers' pension	65	65	1.5	—	0.0
Capital outlay	444	381	10.3	63	16.5
Debt service	255	220	5.9	35	15.9
Other	12	5	0.3	7	140.0
Total	$ 4,293	$ 4,093	100.0%	$ 200	4.9

- **Instruction** increased due to:
  - Salaries which increased $59.5 million primarily due to teacher salary step increases, cost of living adjustments and the hiring of additional teachers.
  - Employee medical and hospitalization costs which increased $4.1 million due to higher provider costs and more employees.
- **Capital outlay** increased by $63 million. The increase in capital outlay of almost 17% is due to the ongoing capital improvement program.
- **Debt service** expenditures have increased in response to the higher level of debt that the CPS has incurred to fund capital improvements.
- **Total expenditures** increased $199.7 million from $4.093 billion in fiscal year 2002 to $4.293 billion in fiscal year 2003, or an increase of 4.9%.

Notes to Basic Financial Statements

The Notes to Basic Financial Statements follow the statements in the report and complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States for the General Operating, Capital Project and Debt Service funds. All annual unencumbered appropriations lapse at fiscal year-end.

The appropriated budget is prepared by fund, account, and unit. Certain funding allocations (primarily Federal and State programs, including Supplementary General State Aid) are made to schools but are not budgeted by account by the schools at the time the budget is adopted. These allocations are included in Other Fixed Charges for budget purposes. During the fiscal year, upon receiving the appropriate approvals from regional offices and the Office of Management and Budget, transfers are made to the appropriate accounts. Actual expenditures are reflected in the appropriate accounts.

- In June 2002, the Board adopted a balanced budget for fiscal year 2003 that reflected total resources, including $43.7 million of available fund balances, and appropriations of $3.67 billion for the General Operating Fund.

- Actual General Operating Fund revenues for fiscal year 2003 were $3.55 billion and actual general operating fund expenditures were $3.59 billion. Actual revenues were less than budgeted revenues primarily due to revenue shortfalls from certain federal grants. These unspent grant amounts typically rollover to the next grant year.
- In June 2003, the Board adopted a balanced budget for fiscal year 2004 that reflected total resources, including $73.7 million of available fund balances, and appropriations of $3.84 billion for the General Operating Fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the CPS' finances and to show the CPS' accountability for the money it receives. Additional details can be requested by mail at the following address:

The Chicago Public Schools
Office of the Controller
125 South Clark Street
14th Floor
Chicago, Illinois, 60603

Or visit our website at: **http://www.cps.k12.il.us** for a complete copy of this report and other financial information.

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2003

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Cash and investments	$ 608,447
Cash and investments in escrow	866,460
Cash and investments held in school internal accounts	27,913
Property taxes receivable, net of allowance	861,426
Other receivables:	
Replacement taxes	17,426
State aid, net of allowance	390,417
Federal aid	67,039
Other	20,768
Other assets	22,487
Capital assets, net of accumulated depreciation	3,882,407
Total Assets	$ 6,764,790
LIABILITIES:	
Accounts payable	$ 264,395
Accrued payroll and benefits	404,472
Amount held for student activities	27,913
Other accrued liabilities	4,000
Interest payable	19,427
Current portion of long-term debt and capitalized lease obligations	109,978
Long-term liabilities:	
Debt, net of premiums and discounts	3,163,127
Capitalized lease obligations	614,218
Pension	894,753
Other benefits and claims	258,089
Total Liabilities	$ 5,760,372
NET ASSETS:	
Invested in capital assets, net of related debt	$ 392,041
Restricted for:	
Debt service	457,106
Specific purposes	88,207
Unrestricted	67,064
Total Net Assets	$ 1,004,418

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2003

(Thousands of Dollars)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$ 2,484,448	$ 1,553	$ 383,168	$ 100,845	$ (1,998,882)
Support services:					
Pupil support services	332,693	—	16,863	14,588	(301,242)
Administrative support services	169,457	—	58,795	7,430	(103,232)
Facility support services	351,492	—	19,044	13,855	(318,593)
Instructional support services	332,620	—	91,397	13,501	(227,722)
Food services	177,526	11,404	162,028	1,533	(2,561)
Community services	47,435	—	33,455	1,957	(12,023)
Interest Expense	186,141	—	—	—	(186,141)
Other	5,297	—	—	—	(5,297)
Total Governmental Activities	$ 4,087,109	$ 12,957	$ 764,750	$ 153,709	$ (3,155,693)

General Revenues:	
Taxes:	
Property taxes	$ 1,574,111
Replacement taxes	105,960
State aid	1,248,607
Interest and investment earnings	49,161
Miscellaneous	22,083
Total General Revenues	$ 2,999,922
Change in net assets	$ (155,771)
Net assets — beginning	1,160,189
Net assets — ending	$ 1,004,418

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS

June 30, 2003

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
ASSETS:				
Cash and investments	$ 511,191	$ 91,625	$ 5,631	$ 608,447
Cash and investments in escrow	4,343	495,408	366,709	866,460
Cash and investments held in school internal accounts	27,913	—	—	27,913
Receivables:				
Property taxes, net of allowance	830,067	—	31,359	861,426
Replacement taxes	17,426	—	—	17,426
State aid, net of allowance	366,001	24,416	—	390,417
Federal aid	66,869	170	—	67,039
Other	9,655	4,316	6,797	20,768
Due from other funds	65,043	4,629	61,566	131,238
Other assets	3,980	—	—	3,980
Total Assets	$ 1,902,488	$ 620,564	$ 472,062	$ 2,995,114
LIABILITIES AND EQUITY:				
LIABILITIES:				
Accounts payable	$ 163,268	$ 98,481	$ 2,645	$ 264,394
Accrued payroll and benefits	372,683	—	—	372,683
Amount held for student activities	27,913	—	—	27,913
Due to other funds	—	130,625	613	131,238
Other accrued liabilities	4,000	—	—	4,000
Deferred property tax revenue	820,517	—	31,093	851,610
Other deferred revenue	185,151	701	—	185,852
Total Liabilities	$ 1,573,532	$ 229,807	$ 34,351	$ 1,837,690
EQUITY:				
Fund Balances:				
Reserved:				
Reserved for encumbrances	$ 78,879	$ 167,023	$ —	$ 245,902
Reserved for restricted donations	429	—	—	429
Reserved for specific purposes	41,289	—	—	41,289
Reserved for debt service	—	—	437,711	437,711
Unreserved:				
Designated to provide operating capital	161,233		—	161,233
Undesignated	47,126	223,734	—	270,860
Total Equity	$ 328,956	$ 390,757	$ 437,711	$ 1,157,424
Total Liabilities and Equity	$ 1,902,488	$ 620,564	$ 472,062	$ 2,995,114

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003
(Thousands of Dollars)

Total fund balances — governmental funds		$ 1,157,424
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.		
Prepaid interest		7,729
Deferred charges — bond issuance costs		10,778
The cost of capital assets (land, buildings and improvements and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in the governmental funds.		
Costs of capital assets	$ 5,630,543	
Accumulated depreciation	(1,748,136)	3,882,407
Long-term liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations are not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Debt, net of premiums and discounts	$ (3,181,301)	
Capitalized lease obligations	(706,023)	
Pension	(894,753)	
Other benefits and claims	(289,878)	
		(5,071,955)
Interest payable		(19,427)
Revenues that have been deferred in the governmental funds but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		851,610
Other deferred revenue		185,852
Net Assets		$ 1,004,418

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2003

With Comparative Amounts for the Fiscal Year Ended June 30, 2002

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2003	Total Fiscal Year Ended June 30, 2002
REVENUES:					
Property taxes	$ 1,495,382	$ —	$ 50,953	$ 1,546,335	$ 1,479,968
Replacement taxes	48,852	—	57,108	105,960	114,313
State aid	1,307,229	63,699	98,639	1,469,567	1,467,914
Federal aid	602,677	6,016	—	608,693	554,750
Interest and investment income	20,803	13,341	15,017	49,161	68,050
Other	76,609	9,615	8,121	94,345	89,505
Total Revenues	$ 3,551,552	$ 92,671	$ 229,838	$ 3,874,061	$ 3,774,500
EXPENDITURES:					
Current:					
Instruction	$ 2,214,781	$ —	$ —	$ 2,214,781	$ 2,152,958
Pupil support services	320,380	—	—	320,380	311,628
Administration support services	163,185	—	—	163,185	148,297
Facilities support services	304,300	—	—	304,300	302,007
Instructional support services	296,517	—	—	296,517	299,807
Food services	170,238	—	—	170,238	160,063
Community services	47,253	—	—	47,253	47,523
Teacher's pension and retirement benefits	65,045	—	—	65,045	65,045
Capital outlay	—	443,873	—	443,873	381,038
Debt service	1,420	—	253,819	255,239	219,894
Other	12,322	—	—	12,322	5,138
Total Expenditures	$ 3,595,441	$ 443,873	$ 253,819	$ 4,293,133	$ 4,093,398
REVENUES LESS THAN EXPENDITURES	$ (43,889)	$ (351,202)	$ (23,981)	$ (419,072)	$ (318,898)
OTHER FINANCING SOURCES (USES)					
Gross amounts from debt issuances	$ —	$ 304,756	$ 3,879	$ 308,635	$ 232,693
Net premiums/(discounts)	—	8,803	—	8,803	(9)
Transfers in/(out)	7,711	(6,000)	(1,711)	—	—
TOTAL OTHER FINANCING SOURCES (USES)	$ 7,711	$ 307,559	$ 2,168	$ 317,438	$ 232,684
REVENUES AND OTHER FINANCING SOURCES (USES) LESS THAN EXPENDITURES	$ (36,178)	$ (43,643)	$ (21,813)	$ (101,634)	$ (86,214)
Fund Balances, beginning of period	365,134	434,400	459,524	1,259,058	1,345,272
Fund Balances, end of period	$ 328,956	$ 390,757	$ 437,711	$ 1,157,424	$ 1,259,058

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2003

(Thousands of Dollars)

Total net change in fund balances — governmental funds		$ (101,634)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which capital outlay exceeds the depreciation in the period.		
Capital outlay/equipment	$ 418,375	
Depreciation expense	(134,884)	283,491
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets		(308,635)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		107,138
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest cost is recognized as the interest accrues, regardless of when it is due		(42,525)
Bond discount, bond premium and issuance cost are amortized over the lives of the bonds in the Statement of Activities but are recorded as a reduction from the proceeds from sales of bond in the governmental funds		(4,319)
Since some property taxes and grants will not be collected for several months after the CPS' fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead recorded as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
Property taxes		27,776
Grants		30,298
In the Statement of Activities, only the gain on the sale of property is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balances by the original cost of the property sold		(795)
In the Statement of Activities, legal settlements, sick pay, vacation pay, workers' compensation, and net pension obligation are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid.		
Legal settlements		22,525
Sick pay		(19,012)
Vacation pay		219
Workers' compensation		(5,212)
Net pension obligation		(145,086)
Change in Net Assets		$ (155,771)

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES BY OBJECT

OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES

FINAL APPROPRIATIONS VS. ACTUAL — GENERAL OPERATING FUND

For the Fiscal Year Ended June 30, 2003

(Thousands of Dollars)

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
REVENUES:					
Property taxes	$ 1,488,500	$ —	$ 1,488,500	$ 1,495,382	$ 6,882
Replacement taxes	69,892	—	69,892	48,852	(21,040)
State aid	1,272,991	—	1,272,991	1,307,229	34,238
Federal aid	691,021	—	691,021	602,677	(88,344)
Interest and investment income	27,014	—	27,014	20,803	(6,211)
Other	73,700	—	73,700	76,609	2,909
Total Revenues	$ 3,623,118	$ —	$ 3,623,118	$ 3,551,552	$ (71,566)
EXPENDITURES:					
Salaries —					
Teachers	$ 1,702,530	$ 21,219	$ 1,723,749	$ 1,749,974	$ (26,225)
Career services	470,237	35,868	506,105	495,154	10,951
Commodities —					
Energy	55,951	2,704	58,655	62,388	(3,733)
Food	92,149	(1,845)	90,304	92,539	(2,235)
Textbooks	48,553	39,433	87,986	72,118	15,868
Supplies	28,496	19,831	48,327	40,653	7,674
Other	1,082	209	1,291	1,155	136
Services —					
Professional and construction	156,916	70,341	227,257	217,917	9,340
Transportation	114,702	(16,970)	97,732	98,901	(1,169)
Tuition	106,402	20,458	126,860	122,223	4,637
Telephone and telecommunications	3,526	3,266	6,792	13,981	(7,189)
Other	24,374	5,862	30,236	26,485	3,751
Equipment — Educational	25,563	22,703	48,266	42,398	5,868
Building and sites —					
Repairs and replacements	46,649	1,829	48,478	48,739	(261)
Capital outlay	10	(2)	8	17	(9)
Fixed charges —					
Teachers' pension	190,970	4,314	195,284	190,259	5,025
Career service pension	73,853	2,925	76,778	73,754	3,024
Hospitalization and dental insurance	219,663	4,888	224,551	196,457	28,094
Medicare	22,942	486	23,428	23,358	70
Unemployment compensation	2,635	5	2,640	3,374	(734)
Workers compensation	14,223	(2,082)	12,141	13,806	(1,665)
Rent	9,074	541	9,615	9,468	147
Debt service	1,450	—	1,450	1,420	30
Other	254,838	(235,983)	18,855	(1,097)	19,952
Total Expenditures	$ 3,666,788	$ —	$ 3,666,788	$ 3,595,441	$ 71,347
REVENUES LESS THAN EXPENDITURES	$ (43,670)	$ —	$ (43,670)	$ (43,889)	$ (219)
OTHER FINANCING SOURCES					
Transfers in	7,711	—	7,711	7,711	—
TOTAL OTHER FINANCING SOURCES REVENUES AND OTHER FINANCING SOURCES LESS THAN EXPENDITURES	$ (35,959)	$ —	$ (35,959)	$ (36,178)	$ (219)
Fund Balances, beginning of period	365,134	—	365,134	365,134	—
Fund Balances, end of period	$ 329,175	$ —	$ 329,175	$ 328,956	$ (219)

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

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Education of the City of Chicago, or the Chicago Public Schools (CPS), is a body politic and corporate, and a school district of the State of Illinois having boundaries coterminous with the boundaries of the City of Chicago. The Board of Education of the City of Chicago (the Board) is established under and governed by the Illinois School Code and maintains a system of schools primarily for kindergarten through twelfth grade.

As a result of legislation passed by the Illinois General Assembly, which became effective on June 30, 1995, the Mayor of the City of Chicago appoints the members of the Board of Education of the City of Chicago. The CPS is excluded from the City's reporting entity because it does not meet the financial accountability criteria for inclusion established by the Governmental Accounting Standards Board (GASB).

The Chicago School Finance Authority, the Public Building Commission of Chicago and the Public School Teachers' Pension and Retirement Fund of Chicago are related but separate entities and are not included as part of the CPS reporting entity. These units are excluded from the CPS reporting entity because they do not meet the criteria for inclusion as established by GASB.

Description of Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the government-wide entity as a whole. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the GASB requirements of accounting and financial reporting for nonexchange transactions.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the CPS's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from general revenues.

The CPS reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the activities of the CPS. The effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 identified as program revenues are reported as general revenues.

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

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, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Property taxes are considered to be available if collected within 60 days of fiscal year end. For this purpose, the CPS considers revenues, other than property taxes, that are susceptible to accrual to be available if they are collected within 90 days of fiscal year end. For fiscal year 2003, this period was extended by two days to include certain state aid payments historically received within the 90 day period. This was caused by the State's delay in processing the actual disbursement of the scheduled payments. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds

CPS reports its financial activities through the use of "fund accounting." This is a system of accounting wherein transactions are reported in self-balancing sets of accounts to reflect results of activities. 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. The minimum number of funds are maintained, consistent with legal and managerial requirements. A description of the activities of the various funds is provided below.

Governmental Funds

a. General Operating Fund

The General Operating Fund is established in compliance with the provisions of the Illinois Program Accounting Manual for Local Education Agencies. This Fund is the primary operating fund of CPS and is made up of the following programs:

Educational Program
Supplementary General State Aid Program
School Food Service Program
Improving America's Schools Act Program
Education of the Handicapped Program

Medicare Program
Workers' and Unemployment Compensation/Tort Immunity Program
Public Building Commission Operations and Maintenance Program
Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

Capital Asset Program — This program is for the receipt and expenditure of the proceeds from the sale of certain Board real estate, proceeds from the Chicago School Finance Authority, and other miscellaneous capital projects revenues from various sources as designated by the Board.

Capital Improvement Program — This program is for the receipt and expenditure of proceeds from the sale of Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State of Illinois Construction Grants, Federal E-rate capital subsidies and other revenues for the purpose of building and improving schools as designated by the Board. The bonds are being repaid in the Debt Service Fund from Replacement Tax revenue, from an Intergovernmental Agreement with the City of Chicago, State of Illinois Construction Grants, General State Aid, other revenues as designated by the Board and from a separate tax levy associated with the bonds, if necessary.

c. Debt Service Fund

The Debt Service Fund includes the following programs:

Bond Redemption and Interest Program — This program is for the receipt and expenditure of Replacement Taxes, City of Chicago Intergovernmental Agreement revenue, State of Illinois Construction Grants, General State Aid and other revenues as designated by the Board for the payment of interest and principal on specific bond issues.

Public Building Commission Leases Program — Receipts and expenditures of tax levies and State of Illinois Construction Grants for the rental payments due to the Public Building Commission of school buildings are recorded in this program. The title to these properties passes to the City of Chicago, in trust for the use of the CPS, at the end of the lease terms.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

CPS' cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. In addition, state statutes authorize CPS to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements, and the State Treasurer's Investment Pool. CPS' investments are reported at fair value.

Restricted Assets

Certain proceeds of the CPS bond issuances, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Receivables and Payables

The CPS records its property taxes receivable as levied for each levy net of an allowance for estimated uncollectible amounts. The allowance is recorded at 2.5% of the gross levy.

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2002 property taxes were levied for fiscal year 2003 in December 2002, and were be billed in fiscal year 2003. In 2003, the installment due dates were March 1 and November 1. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. Collections of property tax installments are received by the treasurers of Cook and DuPage counties, who distribute such receipts to the CPS. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. The levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the levy for the current fiscal year is passed by the Board.

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."

Capital Assets

Capital assets, which include land, building, building improvements and equipment are reported in the governmental activities columns in the government-wide financial statements. Land, buildings and building improvements are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for equipment is a unit cost of $25,000 or more. Donated capital assets are recorded at estimated fair market value at date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of buildings and building improvements of the CPS is calculated using the straight line method beginning in the year after they are placed in service. Equipment is depreciated using the straight line method and the mid-year convention. The CPS' capital assets have the following estimated useful lives:

Assets	Years
Buildings and building improvements	25-50
Administrative software/systems	20
Equipment	5

Depreciation of buildings and building improvements placed in service prior to fiscal year 2002 was calculated using a composite rate that CPS estimated to be 32 years. For items placed in service subsequent to fiscal year 2001, CPS utilizes the estimated useful lives for specific components within the range noted above.

For assets other than personal property placed in service prior to June 30, 2001, the amount to be recorded as a reduction to capital assets and related accumulated depreciation upon asset retirement is determined using a deflated replacement cost methodology.

Vacation and Sick Pay

The CPS provides vacation and sick pay benefits for substantially all of its employees. Accrued sick pay benefits were computed using the termination payment method. The liability for accrued vacation pay benefits is computed using the employee's actual daily wage instead of average daily wage as used in prior years.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. 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 debt service expenditures.

Fund Balances and Equity

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.

The Statement of Net Assets include the following:

Investment in Capital Assets, net of Related Debt — the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

Restricted for Specific Purposes — the component of net assets that reports the difference between assets and liabilities of the certain programs that consists of assets with constraints placed on their use by either external parties and/or enabling legislation.

Restricted for Debt Service — the component of net assets that reports the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted — the difference between the assets and liabilities that is not reported as Net Assets Invested in Capital Assets, net of Related Debt, Net Assets Restricted for Specific Purpose, or Net Assets Restricted for Debt Service.

Comparative Data

Comparative total data for the prior year have been presented in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States for the General Operating, Capital Projects and Debt Service funds. All annual unencumbered appropriations lapse at fiscal year-end.

Certain funding allocations (primarily Federal and State programs, including Supplementary General State Aid) are made to schools but are not budgeted by account by the schools at the time the budget is adopted. These allocations are included in Other Fixed Charges for budget purposes. During the fiscal year, upon receiving the appropriate approvals from regional offices and the Office of Management and Budget, transfers are made to the appropriate accounts. Actual expenditures are reflected in the appropriate accounts.

The appropriated budget is prepared by fund, account and unit. The legal level of budgetary control is at the account level except for school-based discretionary programs. School-based discretionary program expenditures are governed by specific program policies and procedures. Board approval is required for all funding transfers except those described above. In addition, an amended budget is required for increases in total appropriation.

In June 2002, the Board adopted a balanced budget for fiscal year 2003 that reflected total resources, including $43.7 million of available fund balances, and appropriations of $3.67 billion for the General Operating Fund.

In June 2003, the Board adopted a balanced budget for fiscal year 2004 that reflected total resources, including $73.7 million of available fund balances, and appropriations of $3.84 billion for the General Operating Fund.

The Capital Projects Fund is budgeted on a project by project basis. Budgeted amounts in the Capital Projects Fund represent the entire project budget for projects that were expected to commence in fiscal year 2003. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

a. Property Taxes — The CPS levies property taxes using tax levy rates established by statute and an equalized assessed valuation ("EAV") estimated by the CPS. The maximum billing (extension) of property taxes for the rate-limited Educational Levy in any calendar year is limited to the lesser of the tax rate established by statute multiplied by the EAV known at the time the final calendar year tax bills are calculated by the Cook and DuPage County Clerks or the tax rates established by statute multiplied by the prior year EAV. Property taxes for the levies that are not rate-limited are levied based on the estimated requirements for such funds.

The CPS' extensions are limited to the prior year EAV multiplied by the current year maximum legal rate limit. In addition, the growth in property tax extensions of the CPS is limited to the lesser of 5% or the percentage increase in the consumer price index for all urban consumers during the calendar year preceding the tax levy year. Extensions can be increased above this limitation due to the following increases: assessed valuation attributable to new construction, referendum approval, or rate limitation.

Amounts collected in excess of the estimated net receivable for each levy year are reported as revenue in the fiscal year that the tax collections are distributed to CPS. Such amounts are reflected as reductions to property tax receivables because current and future year tax distributions are also impacted by refunds paid by the county treasurers that reduce tax collections distributed to CPS.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE (continued)

Legal limitations on tax rates and the rates extended in calendar years 2003 and 2002 are shown below.

	Maximum 2003 Legal Limit	Tax Rates Extended Per $100 of EAV 2003	2002
General Operating Fund:			
Educational	(A)	$ 2.670	$ 2.712
Medicare	(B)	.017	.031
Workers' and Unemployment Compensation/Tort Immunity	(B)	.150	.191
Public Building Commission Operation and Maintenance	(B)	.609	.685
Public Building Commission Lease Program	(B)	.116	.125
		$ 3.562	$ 3.744

A. The 2003 Educational tax rate is limited to the sum of $3.45 per $100 of EAV plus the difference (the "difference tax") between $.50 per $100 of EAV and the rate of taxes extended for the School Finance Authority.

B. These tax rates are not limited by law, but are subject to the limits described previously.

b. State Aid — The components of State Aid as shown on the financial statements are as follows ($000's):

Revenues:	Fund Financial Statements	Government-Wide Financial Statements
General State Aid Unrestricted	$ 525,950	$ 525,950
Supplementary General State Aid	261,000	261,000
State Teachers' Pension Funding	65,045	65,045
General Education Block Grant	111,560	111,560
Educational Services Block Grant	328,320	346,915
Capital Grants	136,975	136,975
Other Restricted State Revenue	40,717	44,121
Total State Aid	$ 1,469,567	$ 1,491,566

NOTE 4. CASH DEPOSITS AND INVESTMENTS

Cash and investments held in the name of the CPS are controlled and managed by the CPS' Treasury Department; however, custody is maintained by the Treasurer of the City of Chicago, who is the designated ex-officio Treasurer of the CPS under the Illinois School Code. Except for cash and investments in escrow, and the schools' internal accounts, all cash is deposited in bank accounts designated by the City Treasurer for the exclusive use of the CPS.

The cash and investments in escrow in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and PBC Leases. The cash and investments in escrow in the Capital Projects Fund represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues. All cash and investments in escrow are deposited in trust accounts maintained by independent trustees.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Cash

With the exception of school internal accounts as designated by the Board, the Municipal Code of Chicago requires that cash be deposited only in chartered banks or savings and loan associations that are on the City of Chicago's approved depository listing. The ordinances allow only regularly organized State or national banks insured by the Federal Deposit Insurance Corporation, and Federal and State savings and loan associations insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation located within the City of Chicago, to be designated depositories.

The CPS Investment Policy and the Municipal Code of Chicago require collateral with an aggregate market value of not less than 110% of the original acquisition price, including principal and accrued interest, on depository account balances and certificates of deposit unless the bank meets certain rating requirements. Collateral for the CPS' bank accounts are held by a third-party custodian in the name of the City of Chicago Treasurer for the benefit of the CPS. Collateral shall be only those securities authorized as allowable investments.

As of June 30, 2003, the book amount of the CPS' deposit accounts was $32.9 million. The bank balance as of June 30, 2003, was $55.5 million. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2003. The bank balance was covered by Federal depository insurance and by collateral held by a third-party custodian.

Cash and Investments Held in School Internal Accounts, and the corresponding liability, Amounts Held for Student Activities, represent the individual schools bank balance for checking and investments.

Investments

The CPS' investments are authorized under the Illinois Compiled Statutes Finance Investment Act. The CPS' Investment Policy is derived from this Act. The CPS Investment Policy authorizes the CPS to invest in obligations guaranteed by the full faith and credit of the U.S. Government, certificates of deposit constituting direct obligations of banks, commercial paper rated within the two highest classifications established by at least two standard rating services, money market mutual funds, repurchase agreements that mature within 330 days, certain U.S. Government agency securities, and certain State and municipal securities that are rated at the time of purchase within the two highest classifications established by a nationally recognized rating service. All mutual funds purchased invest in eligible securities outlined in the parameters of the CPS Investment Policy and meet certain other regulatory requirements. During the fiscal year ended June 30, 2003, repurchase agreements were supported by collateral with an aggregate market value equal to at least 102% of amounts invested.

Investments as of June 30, 2003, are categorized to give an indication of custodial risk assumed by CPS.

	Category			Carrying
($000's)	1	2	3	Amount
Repurchase Agreements	$ 544,166	$ —	$ —	$ 544,166
U.S. Government Agency Securities	380,202	—	—	380,202
Commercial Paper	114,161	—	—	114,161
Total	$ 1,038,529	$ —	$ —	$ 1,038,529
Money Market Mutual Funds				431,345
Total Investments				$ 1,469,874
Cash				32,946
Total Cash and Investments				$ 1,502,820

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Investments are categorized into these three categories of credit risk:

(1) Insured or registered, or securities held by the CPS or its agent in the CPS' name.

(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the CPS' name

(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the CPS' name

The following table provides a summary of CPS' total cash and investments at June 30, 2003 ($000's):

Fund:	Amount
General Operating Fund	$ 543,447
Capital Projects Fund	587,033
Debt Service Fund	372,340
Total Cash and Investments	$ 1,502,820

NOTE 5. RECEIVABLES

Receivables as of June 30, 2003 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows ($000's):

	Fund Financial Statements	Government-Wide Financial Statements
Property taxes	$ 901,787	$ 901,787
Replacement taxes	17,426	17,426
State aid	394,260	394,260
Federal aid	67,039	67,039
Other	20,768	20,768
Total Receivables	$ 1,401,280	$ 1,401,280
Less: Allowance for uncollectibles	(44,204)	(44,204)
Total Receivables, net	$ 1,357,076	$ 1,357,076

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2003, the components of deferred revenue reported in the fund financial statements are as follows ($000's):

Deferred property taxes	$ 851,610
Other deferred revenue	185,852
Total Deferred Revenue	$ 1,037,462

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows ($000's):

Government-wide activities:	Beginning Balance	Increases	Decreases and Transfers to In-service	Ending Balance
Capital assets, not being depreciated:				
Land	$ 176,427	$ 24,792	$ (3,400)	$ 197,819
Construction in progress	73,357	264,615	(73,357)	264,615
Total capital assets not being depreciated	$ 249,784	$ 289,407	$ (76,757)	$ 462,434
Capital assets being depreciated:				
Buildings and improvements	$ 4,923,123	$ 197,070	$ (18,381)	$ 5,101,812
Equipment and administrative software	53,559	14,142	(1,404)	66,297
Total capital assets being depreciated	$ 4,976,682	$ 211,212	$ (19,785)	$ 5,168,109
Total Capital Assets	$ 5,226,466	$ 500,619	$ (96,542)	$ 5,630,543
Less accumulated depreciation for:				
Buildings and improvements	$ (1,602,944)	$ (135,126)	$ 16,890	$ (1,721,180)
Equipment and administrative software	(27,807)	242	609	(26,956)
Total accumulated depreciation	$ (1,630,751)	$ (134,884)	$ 17,499	$ (1,748,136)
Capital Assets, net of depreciation	$ 3,595,715	$ 365,735	$ (79,043)	$ 3,882,407

Depreciation expense was charged to functions/programs of the CPS as follows ($000's):

Governmental activities:	
Instruction	$ 86,109
Pupil support services	12,456
Administrative support services	6,345
Facility support services	11,831
Instructional support services	11,529
Food services	6,614
Total Depreciation	$ 134,884

Construction Commitments

The CPS had active construction projects as of June 30, 2003. These projects include new construction and renovations of schools. At year end, the CPS had approximately $167 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

Interfund transfers are defined as the flow of assets, such as cash or goods, without equivalent flows of assets in return. Interfund borrowings are reflected as "Due from/to Other Funds" on the accompanying governmental fund financial statements. All other interfund transfers are reported as operating transfers.

NOTE 7. INTERFUND TRANSFERS AND BALANCES (continued)

The following represent interfund balances among all funds at June 30, 2003 ($000's):

General Operating Fund:	
Due from Capital Improvement Program	$ 100,025
Due to Capital Asset Program	(4,629)
Due to Bond Redemption and Interest Program	(30,966)
Due from Public Building Commission Leases Program	613
Total — Due from other Funds	$ 65,043
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 4,629
Capital Improvement Program — Due to Bond Redemption and Interest Program	(30,600)
Capital Improvement Program — Due to General Operating Fund	(100,025)
Total — Due to other Funds	$ (125,996)
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	$ 30,966
Bond Redemption and Interest Program — Due from Capital Improvement Program	30,600
Public Building Commission Leases Program — Due to General Operating Fund	(613)
Total — Due from other Funds	$ 60,953

These balances result from operating transactions between funds and are repaid during the fiscal year within the normal course of business.

Transfers

Effective June 30, 2003, CPS made operating transfers of $6.0 million from the Capital Improvement Program to the Bond Redemption and Interest Program in order to fund the repayment of the outstanding State Technology Revolving Loans and transfer of $7.7 million of interest earnings from the Bond Redemption and Interest Program to the General Operating Fund.

NOTE 8. LONG-TERM DEBT

a. General Obligation Bonds

The CPS had the following bond issuances in fiscal year 2003:

Unlimited Tax General Obligation Bonds (Series 2002A)

In September 2002, CPS issued $48,970,000 in Unlimited Tax General Obligation Bonds (Series 2002A) at a premium of $2,748,775. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay interest and costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $46,968,972 in the Capital Improvement Fund and $3,878,761 of capitalized interest in the Debt Service Fund.

Unlimited Tax General Obligation Bonds (Series 2003A,B)

In February 2003, CPS issued $75,890,000 in Unlimited Tax General Obligation Bonds (Series 2003A) at a premium of $6,054,588 and $183,775,000 in Unlimited Tax General Obligation Bonds (Series 2003B). The

proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $262,125,571 in the Capital Improvement Fund. The Series 2003B bonds were issued as Auction Rate Securities (variable rate) with a final maturity date of March 1, 2033 in three sub-series as follows:

Sub-series	Par Amount	Rate Reset Period	Broker-Dealer(s)
Series 2003B-1	$ 45,100,000	35-day	Bank of America Loop Capital Markets Morgan Stanley
Series 2003B-2	43,350,000	35-day	Bank of America Loop Capital Markets
Series 2003B-3	95,325,000	7-day	AG Edwards Morgan Stanley
Total Par Amount	$ 183,775,000		

Upon closing the Series 2003B bonds, CPS entered into two interest rate swap agreements (see Note 10).

NOTE 8. LONG-TERM DEBT (continued)

The following is a summary of changes in Long-term Debt outstanding ($000's):

Series	Principal Outstanding June 30, 2002	Issuances	Retirements	Principal Outstanding June 30, 2003	Accreted Interest	Principal and Accreted Interest June 30, 2003
2003A	$ —	$ 75,890	$ —	$ 75,890	$ —	$ 75,890
2003B	—	183,775	—	183,775	—	183,775
2002A	—	48,970	—	48,970	—	48,970
2001C	217,260	—	—	217,260	—	217,260
2001B	9,440	—	—	9,440	—	9,440
2001A	45,110	—	(680)	44,430	—	44,430
2000E	13,390	—	—	13,390	—	13,390
2000B,C,D	303,000	—	—	303,000	—	303,000
2000A	106,960	—	—	106,960	—	106,960
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	532,554	—	—	532,554	72,589	605,143
1998B-1	328,714	—	—	328,714	87,345	416,059
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	—	499,995	13,195	513,190
1997	484,695	—	(7,610)	477,085	—	477,085
1996	124,865	—	(2,475)	122,390	—	122,390
Total Bonds	$ 2,691,983	$ 308,635	$ (10,765)	$ 2,989,853	$ 173,129	$ 3,162,982
STRL	10,067	—	(8,009)	2,058	—	2,058
Asbestos Abatement	11,833	—	(1,420)	10,413	—	10,413
Total Long-Term Debt	$ 2,713,883	$ 308,635	$ (20,194)	$ 3,002,324	$ 173,129	$ 3,175,453
Less Current Portion						(18,172)
Net Premium/(Discount)						5,846
Total Long-term Debt, net of Current Portion and Premium/Discount						$ 3,163,127

The current portion of long-term debt is comprised of the following:

Bonds	$ (14,695)
State Technology Revolving Loan	(2,058)
Asbestos Abatement Loans	(1,419)
Total Current Portion	$ (18,172)

The Unlimited Tax General Obligation Bonds are being repaid in the Debt Service Fund from Replacement Tax revenue, revenue from Intergovernmental Agreements with the City of Chicago, and General State Aid to the extent possible, and then from a separate tax levy associated with the bonds.

Future debt and associated swap payments (see Note 10). Interest rates on fixed rate bonds range from 2.5% to 6.75%, except that CPS does not pay or accrue interest on the Series 2001B Bonds, the

Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own the Series 2001B bonds will be entitled to a credit against taxable income. Interest rates on variable rate bonds and net swap payments assume the debt service deposit requirement rate and that auction rates as of June 30, 2003 remain the same through their term. Debt service requirements for the Unlimited Tax General Obligation Bonds and net swap payments are scheduled as follows ($000's):

Fiscal Year(s)	Fixed Rate Bonds		Variable Rate Bonds		Interest Rate Swaps, Net**	Total
	Principal	Interest	Principal	Interest*		
2004	$ 14,695	$ 97,154	$ —	$ 19,953	$ 5,497	$ 137,299
2005	20,200	96,235	—	19,953	5,149	141,537
2006	21,850	95,199	—	19,953	5,149	142,151
2007	19,875	94,167	—	19,953	5,149	139,144
2008	25,124	93,565	—	19,953	5,149	143,791
2009-2013	358,548	549,699	17,800	98,030	25,747	1,049,824
2014-2018	440,650	558,602	42,300	90,281	25,747	1,157,580
2019-2023	554,673	560,917	114,075	74,504	22,059	1,326,228
2024-2028	680,678	487,403	149,075	48,666	14,904	1,380,726
2029-2033	366,785	573,957	163,525	14,834	6,116	1,125,217
Total	$ 2,503,078	$ 3,206,898	$ 486,775	$ 426,080	$ 120,666	$ 6,743,497

* Interest on Series 2000B,C,D variable rate demand notes calculated at an assumed rate of 6% per annum (equals annual debt service deposit requirement); Interest on Series 2003B auction rate securities assumes current interest rates remain the same as of June 30, 2003, calculated at 0.965%.

** Computed: (3.782%–0.98%) × Outstanding Principal

Interest and maturities include accretable interest on the Capital Appreciation Bonds as follows ($000's):

Series	Accreted Interest June 30, 2002	Increase	Accreted Interest June 30, 2003	Total Accretable Interest	Remaining Accretable Interest
1997A	$ 10,531	$ 2,664	$ 13,195	$ 53,485	$ 40,290
1998B-1	66,895	20,450	87,345	816,756	729,411
1999A	54,425	18,164	72,589	617,287	544,698
	$ 131,851	$ 41,278	$ 173,129	$ 1,487,528	$ 1,314,399

The loans with the EPA to fund specific asbestos abatement projects are non-interest bearing and are being repaid over a 20-year period. No specific revenue sources are currently dedicated to provide for asbestos abatement loan retirements.

NOTE 9. CAPITALIZED LEASE OBLIGATIONS

Annual rental payments are made pursuant to lease agreements with the Public Building Commission (the "PBC"). The PBC constructs, rehabilitates and equips school buildings and facilities for use by the CPS. The annual lease rentals are funded either by a tax levy, established when the CPS approved such construction, or State school construction grants.

The leases are structured so that annual rentals will exceed the PBC's requirements for debt service and other estimated expenses including administrative expenses. This ensures that the PBC will receive adequate revenue to cover these obligations. The PBC can authorize rent surpluses to be used either to reduce future rental payments or to finance construction of other CPS projects.

The future PBC and capitalized equipment leases due at June 30, 2003, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals	Equipment Leases	Total
2004	$ 133,599	$ 3,313	$ 136,912
2005	167,906	2,548	170,454
2006	51,359	1,815	53,174
2007	51,765	603	52,368
2008	51,800	223	52,023
2009-2013	259,430	4	259,434
2014-2018	260,099	—	260,099
2019-2020	82,734	—	82,734
Total rentals	$ 1,058,692	$ 8,506	$ 1,067,198
Less — Interest and other costs	(359,793)	(1,382)	(361,175)
Principal amount of rentals due	$ 698,899	$ 7,124	$ 706,023

Following is a summary of changes in PBC Leases and Capitalized Lease Obligations outstanding ($000's):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
PBC Leases	$ 785,844	$ —	$ (86,945)	$ 698,899
Capitalized Lease Obligations	3,130	5,449	(1,455)	7,124
Total	$ 788,974	$ 5,449	$ (88,400)	$ 706,023
Less: Current Portion of PBC Leases				(91,805)
Total PBC Leases and Capitalized Lease Obligations Outstanding				$ 614,218

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

Swap Objective. CPS entered into two interest rate swaps associated with the issuance of the Series 2003B bonds in February 2003 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of entering into the swaps was to effectively change the variable interest rate on the auction rate bonds to a fixed interest rate of 3.782%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2033, and the total notional amount of the swaps equals the $183,775,000 of Series 2003B variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of

3.782% and receives a variable payment computed at the Bond Market Association Municipal Swap Index™ (BMA) until March 1, 2007, then computed as 70% of the London Interbank Offered Rate (LIBOR) from March 1, 2007 through March 1, 2033. The actual rate incurred by CPS pursuant to the swap at June 30, 2003 was 2.802%.

Fair value. Because interest rates have declined since execution of the swaps, the swaps had a negative fair value as of June 30, 2003. The swaps' negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on CPS's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by each counterparty as of June 30, 2003 (see table below).

Credit risk. As of June 30, 2003, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2003

Counterparty	Swap Notional Amount	Credit Rating; Outlook		Swap Fair Value
		Moody's	S&P	
Goldman Sachs	$ 110,265,000	Aa3	A+; stable	$ (7,338,700)
Bank of America . . .	73,510,000	Aa2	AA–; stable	(4,808,031)
Total	$ 183,775,000			$ (12,146,731)

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities increase to more than the BMA rate received through March 1, 2004. After March 1, 2004, in addition to the basis risk between BMA and the auction rate securities, the swaps expose CPS to further basis risk should the relationship between LIBOR and BMA converge. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.782% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2003, the weighted average auction rate was 0.965% and the BMA rate was 0.98%. As of June 30, 2003 the BMA rate was 0.98%, whereas 70% of LIBOR was 0.784%. To mitigate the potential for basis risk, CPS intends to fund a reserve to provide for potential basis differential (annual debt service fund deposit is calculated at a rate of 3.902%, and $3,000,000 will fund a reserve in 2006).

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A–" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2003B bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

NOTE 11. OTHER LONG-TERM LIABILITIES

The following is a summary of changes to other long-term liabilities ($000's):

	Balance June 30, 2002	Additions	Payments	Balance June 30, 2003
Accrued Sick Pay Benefits	$ 189,605	$ 54,121	$ (35,108)	$ 208,618
Accrued Vacation Pay Benefits	46,412	4,766	(4,986)	46,192
Accrued Workers' Compensation Claims	29,856	19,028	(13,816)	35,068
Tort Liabilities and Other Claims	22,525	—	(22,525)	—
Total	$ 288,398	$ 77,915	$ (76,435)	$ 289,878
Less: Current Portion of Vacation Pay Benefits				(5,004)
Less: Current Portion of Accrued Sick Pay Benefits				(26,785)
Total Other Long-term Liabilities				$ 258,089

Sick Pay Benefits

The CPS provides sick pay benefits for substantially all of its employees. As of June 30, 2003, eligible employees can accumulate a maximum of 305 days. If an employee either reaches age 65; is age 58 with between 20 and 33 years of service; has 34 years of service, or; dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to 10 years of service; 53 days for those with 10 to 20 years of service; and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate.

Accrued Workers' Compensation, Tort Liabilities and Other Claims

The CPS is substantially self-insured and assumes risk of loss as follows:

The CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $150,000,000 and Boiler & Machinery Insurance with limits of $100,000,000 with the following deductibles:

Data Processing Equipment & Media	$ 25,000
Mechanical Breakdown	$ 50,000
All Other Losses	$ 500,000

During fiscal years 2003, 2002 and 2001 no settlements were made in excess of the self-insured amount.

The CPS maintains commercial excess liability insurance with limits of $100,000,000 in excess of a $10,000,000 self-insured retention per loss for claims arising from: General Liability; Automotive Liability; Employers Liability; and Wrongful Acts.

As discussed in Note 15, there are pending Workers' Compensation and tort claims involving the CPS which have arisen out of the ordinary conduct of business. The CPS budgets an amount each year in the Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

The CPS' estimate of liabilities for tort and workers' compensation claims is based on reserves established by the respective trial attorneys or the claims administrators. The CPS accrues for the estimated workers' compensation and tort claims in the General Operating Fund where there is a likelihood that an unfavorable outcome is probable and that expenditures will be liquidated with expendable available financial resources.

The CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis). A liability of $37.0 million has been recorded in the General Operating Fund for estimated medical claims incurred but not reported as of June 30, 2003. Following is the activity related to medical claims for which the CPS is self-insured ($000's):

Balance June 30, 2001	Additions	Payments	Balance June 30, 2002	Additions	Payments	Balance June 30, 2003
$ 35,045	$ 148,300	$ (133,391)	$ 49,954	$ 141,528	$ (154,462)	$ 37,020

NOTE 12. PENSION BENEFITS

Pension benefits for certified teachers and administrators are provided under a defined benefit single employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund"). There are no assets of the CPS included in the Pension Fund. Copies of the Pension Fund Annual Report are available by contacting the Public School Teachers' Pension & Retirement Fund of Chicago, 55 West Wacker Drive, Chicago, Illinois 60601.

The retirement, survivor and disability benefits provided by the Pension Fund are governed by Article 17 of the Illinois Pension Code. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2002, the most recent report, there were 37,374 active participants in the Pension Fund, substantially all of who were employees of the CPS.

A member of the Pension Fund with at least 20 years of service is entitled to a pension upon attainment of age 55. A member with at least 5 but less than 20 years of service is entitled to a pension upon attainment of age 62. The pension benefit is based upon years of service and salary level.

Participating members contribute 9% of salary, allocated as follows: 7.5% for retirement pension, 0.5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 2003, as in previous fiscal years, the CPS paid a portion (7% – $112.1 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. The funding of the 7% portion is provided by a portion of grant funds from the Federal government and General Operating Fund revenues. The remaining portion (2%) is withheld from teachers' salaries.

The CPS' employer-required contributions, with the exception of contributions from Federal funds, are not actuarially determined. State law requires statutorily determined CPS employer contributions. The CPS' employer-required contributions towards the cost of retirement benefits, and their related sources of funding, are as follows ($000's):

Retirement benefit contribution:	
An appropriation from the Illinois General Assembly	$ 65,045
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	13,127
Total contributions	$ 78,172

For the fiscal year ended June 30, 2003, employee contributions are $144.1 million which is 9% of covered payroll. Employer contributions for the year are $78.2 million which is approximately 5% of covered payroll.

The CPS recognizes its pension expenditures as the amount accrued during the year that normally would be liquidated with expendable available financial resources (i.e., total CPS contributions).

The government fund financial statements reflect expenditures on both a functional and budgetary account basis. Teachers' pension expenditures reflected on the budgetary account basis include both the CPS' employer share of pension expenditures of $78.2 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of $112.1 million, which total $190.3 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the State, are reflected in the same functional classifications as the teachers' salaries.

The CPS' annual pension cost for fiscal years 2003, 2002 and 2001 are as follows ($000's):

	2003	2002	2001
Annual required contribution (ARC)	$ 160,196	$ 178,855	$ 188,923
Interest on Net Pension Obligation (NPO)	59,973	50,149	40,148
Adjustment to annual required contribution	(36,911)	(30,865)	(24,710)
Annual Pension Cost (APC) for the fiscal year ended June 30, 2003	$ 183,258	$ 198,139	$ 204,361
Less: Contributions made	(78,172)	(75,337)	(79,347)
Add: Segregated health care benefits	40,000	n/a	n/a
Increase in NPO	$ 145,086	$ 122,802	$ 125,014
Add NPO, beginning of year	749,667	626,865	501,851
NPO, end of year	$ 894,753	$ 749,667	$ 626,865

Actuarial valuation date	June 30, 2002
Actual cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	40 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 5.5% per year
Inflation	3%

Prior to fiscal year 2003, the ARC calculated by the Fund included a component for the annual statutory amount that could be expended by the Fund for post retirement health care benefits. For fiscal year 2003, the Fund calculation for the annual required contribution excludes the statutory health care benefits because the Fund has begun to segregate assets for health insurance in its financial statements (see below). For purposes of comparability, CPS has adjusted the calculation of the net pension obligation to exclude the $40 million. As a result, the impact on the annual increase to the net pension obligation is not significant.

Effective June 30, 2002, The Fund began to allocate the entire amount of the State of Illinois' appropriation to pay for current and future health care benefits. Accordingly, the financial statements of the Fund show a balance of net assets in a Health Insurance Fund which is separate from the Pension Fund. In CPS' management's opinion, the Fund should not be able to allocate amounts in excess of the statutory spending limits.

The Statement of Activities reflects pension expense equal to the actuarially determined APC described above, which includes the post-retirement benefit component equal to the $40 million annual statutory amount for healthcare benefits. These amounts have been allocated to functions/programs based on salaries and benefits.

For the fiscal years 2002, 2001 and 2000, the Fund spent $44 million, $44 million and $26 million, respectively, for retiree medical premiums which included the $40 million and prior year carryover amounts as allowed by statute.

At June 30, 2002, 2001 and 2000 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2002	2001	2000
Actuarial value of assets	$ 10,619,061	$ 10,392,705	$ 9,612,203
Less: Actuarial Accrued Liability (AAL)	(11,025,482)	(10,387,569)	(9,940,372)
AAL unfunded liability (surplus)	$ 406,421	$ (5,136)	$ 328,169
Funded ratio	96.3%	99.9%	96.7%
Covered payroll	$ 1,759,046	$ 1,690,264	$ 1,651,810
Unfunded AAL as a percentage of covered payroll	23.1%	0.3%	19.9%

As discussed above, the amount shown for the actuarial value of pension assets for 2002 excludes amounts allocated/transferred to the Health Insurance Fund.

	2003	2002	2001
Annual pension cost	$ 183,258	$ 198,139	$ 204,361
Percentage of annual pension cost contributed	20.8%	38.0%	38.8%
Net Pension Obligation	$ 894,753	$ 749,667	$ 626,865

In the opinion of the CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by the CPS; however, the CPS is required to provide funding in addition to amounts provided from Federal and State Sources if the funded ratio drops below 90%. No additional General Operating Fund appropriation was required for the fiscal year ended June 30, 2003.

OTHER PERSONNEL —

All career service employees of the CPS, except CPS employees who are members of the Public School Teachers' Pension and Retirement Fund, participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Annuity Fund").

Employees with at least 10 years of service who have attained 55 years of age at the time they withdraw from service must accept an annuity if they are not eligible for a refund of their annuity contribution. Employees under the age of 55 with at least 10 years of service who withdraw from service may accept a refund of their contributions plus interest or let the contributions remain in the Annuity Fund and receive an annuity, beginning upon application for an annuity, after they attain 55 years of age. If an employee withdraws from service with less than 10 years of service, accumulated annuity contributions plus interest are refunded.

Except as described below, the CPS makes no direct contributions to the Annuity Fund, which receives its income from three primary sources: a City of Chicago tax levy; income from investments; and deductions from participating employees' salaries.

NOTE 12. PENSION BENEFITS (continued)

Covered employees are required by Article 8, Chapter 40 of the Illinois Compiled Statutes to contribute a percentage of their salary (8.5%). In fiscal year 2003, as in previous fiscal years, the CPS agreed to pay a portion (7% – $30.4 million) of the required employees' contribution for most employees. The CPS also receives a portion of the cost of providing pension benefits from grants by the Federal government for career service employees paid from certain Federally-funded programs. The amount reflected as career service pension expenditures in the accompanying governmental fund financial statements is $73.8 million, $30.4 million of this amount represents the required employees' contribution paid by the CPS on behalf of its employees, and $38.8 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining $4.6 million is funded under Federally-funded programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund.

Career service pension expense in the government-wide financial statements is $73.8 million.

As of December 31, 2002, the date of the latest available report, the Annuity Fund had net assets of approximately $5.13 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $1.2 billion. The CPS employs approximately 15,000 of the 35,522 active participants in the Annuity Fund. The CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund.

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY

In 1979, the CPS was unable to continue normal operations because of a severe cash shortage. As a result, the Chicago School Finance Authority (the "Authority") was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. Additionally, the Authority issued $573,000,000 of bonds and provided the CPS with $450,431,000 for operating purposes in fiscal years 1980 and 1981.

In 1984, the Authority issued $114,500,000 principal amount of additional general obligation bonds to provide the CPS with money for school rehabilitation and construction purposes.

In February 1994, the Authority issued $405,380,000 principal amount of general obligation bonds to provide the CPS with $175,000,000 and $203,000,000 for operating purposes for the CPS' fiscal year ending August 31, 1994 and 1995, respectively.

The amount of Authority bonds outstanding at June 30, 2003, net of bonds advance refunded or defeased is $458,180,000. The Authority's bonds are not a direct or contingent obligation of the CPS.

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)

The principal amount of general obligation bonds of the Authority at June 30, 2003 is shown below ($000's).

	Maturities		
Fiscal Year(s)	Principal and Sinking Fund Installments	Interest	Total
2004	$ 56,900	$ 20,616	$ 77,516
2005	59,710	17,805	77,515
2006	78,595	14,795	93,390
2007	62,140	10,607	72,747
2008	65,600	7,258	72,858
2009	68,465	3,711	72,176
Total	$ 391,410	$ 74,792	$ 466,202

Interest rates on the above Authority bonds range from 4.2% to 7.6%.

The Authority is a separate body politic and corporate and a unit of local government with the power to levy property taxes. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The Authority had various financial oversight powers related to the CPS until June 30, 1995. Public Act 93-0488 suspended the powers of the Authority until 2010.

NOTE 14. FUND BALANCE

The Fund Balance Reserved for Specific Purposes amount consists of the following ($000's):

Purpose	Reserved Amount
Workers' Compensation/Tort Immunity	$ 3,206
Supplementary General State Aid	30,379
Public Building Commission Operations and Maintenance	7,704
Total	$ 41,289

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2002 Supplementary General State Aid allocation.

In its fiscal year 2003 budget, CPS appropriated in its General Operating Fund $43.7 million of fund balances from amounts reserved for specific purposes.

In its fiscal year 2003 budget, CPS designated $201.5 million to provide working capital. In its fiscal year 2004 budget, CPS has designated $161.3 million to provide working capital.

During fiscal year 2003, the Board reserved $437.7 million for Debt Service of which $223.6 million was allocated to the Bond Redemption and Interest Program and the remaining $214.1 million was allocated to the Public Building Commission Leases Program.

NOTE 15. LITIGATION AND CONTINGENCIES

a. Pension Fund Litigation

In 1993, the Public School Teachers' Pension and Retirement Fund ("Fund") filed a lawsuit claiming that the Board failed to make certain statutorily required contributions to the Fund in the fiscal years ended

August 31 of 1992, 1993 and 1994. The Fund's complaint alleges three basic claims: First, that the amounts paid to the Fund by the Board with respect to teachers working in Federal programs for which it receives Federal funds, do not count as employer contributions under the Pension Code, notwithstanding that employee contributions for such teachers do count. The amounts of money implicated in the fiscal years 1991, 1992, and 1993 were $7,972,439, $8,473,930 and $10,158,343, respectively. The Fund's second claim involves employer contributions made by the Board for teachers electing early retirement. The Board contributed $22,208,684 in August 1993 on behalf of those employees who elected early retirement that month. This contribution was paid under the lump sum plan for a number of retirees and under the installment plan (i.e., quarterly payments over a five-year period) for the remaining retirees. The Fund claims that this payment did not count as an employer contribution for purposes of the Pension Code even though the teacher contributions are deemed employee contributions. Based on this assertion, the Fund would have the Board make a "double" payment of the employer contribution. The Fund's third claim concerns the Pension Code provision which allows retired teachers to purchase constructive service credit for time spent in military service (either before becoming a teacher or after leaving the Board). The Pension Code requires retired teachers to pay all costs to the Fund for such added credit that is "an amount equal to the employer's normal cost of benefits accrued from such service plus interest." The Fund, however, contends that the payments for military service credits including the employer's normal cost of benefits are employee contributions, totaling $1,633,476 and $17,122 in fiscal years 1992 and 1993.

In December, 1996, the Board sought partial summary judgment determinative that the payments made to the Fund as employer contributions for teachers taking early retirement and that its payments to the Fund for teachers in Federally-assisted programs are employer contributions for purposes of the deficiency provision of the Pension Code. Further, the motion sought a determination that retired teachers' payments for military service credit should not be treated as employee contributions requiring an employer match.

On February 28, 1997, the Circuit Court of Cook County granted the Board's partial Motion for Summary Judgment in all material aspects. The court reserved for later resolution the question whether the Board would owe interest on certain employee contributions for employees retiring early for alleged late payment. No final judgment was entered at that time.

On December 17, 2000, upon the Joint Motion of the Board and the Fund, the Circuit Court entered an order dismissing the case, but without prejudice to the right of the Fund to seek to reinstate the case within 120 days of its entry.

On February 13, 2002, the Board and the Fund entered into an Agreement for Preservation of Claims. In this Agreement the parties agreed that the Court Order of December 17, 2000, would become final without either party seeking to reinstate the case. That Order has now become final and the claims presented in the case are no longer pending.

The Agreement for Preservation of Claims also provided that certain claims of the Fund with respect to the Board were not covered by the Court Order and that the parties would retain all their rights, claims and defenses with respect to these claims. These claims concern payments that the Board was required to make to the Fund in respect of employees taking special early retirement in 1993 through 1995. The Board was required to make payments either in a lump sum or in quarterly payments over 5 years from the date of retirement for those employees in amounts as prescribed by statue. The Fund contends that the Board failed to pay the full amounts due and that it still owes approximately $4,498,055, plus interest which the Fund calculated as of January 1, 2002 to be $2,049,258. The Agreement tolled the statute of limitations for these claims until January 1, 2002 (that is, it in essence provided that time between the date of the Agreement and January 1, 2002, would not count against the statute of limitations).

The Board is reviewing the Fund's calculations as to the amounts which were due in respect of early retirement.

Given the current status of these matters, it is not possible to determine whether an ultimate finding of liability against the Board is probable or the exact cost associated with any such finding.

b. Teacher Tenure

Maurice Land, et al. v. Board of Education of the City of Chicago, et al., is a lawsuit filed in 1999 against the Board in which the plaintiffs are teachers laid-off pursuant to the Board's policy on reassignment and layoff of regularly appointed and certified teachers. Some of the plaintiffs were those who lost their assignments during the 1997 reconstitution of seven high schools. The complaint is for mandamus, declaratory and injunctive relief. The complaint asserts violation of the School Code provision relating to tenure. The trial court granted the Board's motion for summary judgment and the Chicago Teachers Union ("CTU") sought review in the Illinois Appellate Court.

On August 27, 2002, the Appellate Court issued an opinion affirming in part and reversing in part the Circuit Court's decision. The Appellate Court concluded, among other things, that (i) the Board has the statutory power to layoff tenured teachers, including the Plaintiffs here, (ii) the Board complied with the Policy in laying off the Plaintiffs, and (iii) the layoffs did not violate Plaintiffs' due process rights. With respect to each of these issues (and others), the Appellate Court affirmed the Circuit Court's grant of summary judgment in favor of the Board. However, the Appellate Court also held that although "the Board may establish a layoff policy ..., [the Board] may not through that policy delegate its absolute layoff power to school administrators." The Court remanded the case for further proceedings related to the delegation issue and related to the factual issues relating to the employment record of one of the Plaintiffs.

On September 17, 2002, the CPS filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on December 20, 2002. The Board has continued to litigate this matter vigorously, having successfully petitioned the Illinois Supreme Court to review the delegation issue. The case has been fully briefed and was argued before the Supreme Court on September 24, 2004.

On November 21, 2002, the Supreme Court reversed the judgment of the Appellate Court holding that the Board had the statutory authority to delegate its power to make layoffs, but affirmed the Appellate Court's order remanding the case to the Circuit Court for further fact finding regarding the specific process which led to the layoffs at issue. Specifically, the Supreme Court indicated that the Board could not delegate its layoff power to principals (as opposed to central office administrators) and, accordingly, found that fact finding regarding the mechanics of the layoff process was necessary.

Should the CTU ultimately prevail, the Court could order reinstatement and back wages for all of the Plaintiffs. The total amount of exposure may be significant, depending on the length of time that passes from the date of the layoff to the date of an ordered reinstatement. Given the current status of these matters, it is not possible to determine whether an ultimate finding of liability against the Board is probable or the exact cost associated with any such finding.

c. Property Tax Appeals Board (PTAB) Decisions

In March 2000 and August 2001, the PTAB rendered two series of decisions in which it granted reduced assessed valuations to the owners of certain real property by employing lower levels of assessment. In the March decisions, the PTAB elected to utilize the median levels of assessment derived from the Illinois Department of Revenue's sales-ratio studies (the "Sales-Ratio Studies") as the mechanism for

determining correct assessment levels, instead of those set forth in the Cook County Real Property Assessment Classification Ordinance (the "Classification Ordinance"). Use of the Sales-Ratio Studies resulted in a lower assessment level than required by the Classification Ordinance. In its August 2001 decisions, after examining the Sales Ratio Studies, the PTAB held that the Cook County Assessor's assessment practices violated a provision of the State Constitution, which limits the level of assessment of the highest class of property, in a county that classifies property, to two and one-half times the level of assessment of the lowest class of property in that county. As a result, the PTAB established a maximum assessment level that is significantly below the assessment levels for commercial and industrial property currently set forth in the Classification Ordinance. Consistent with these opinions, the PTAB has continued to apply a lower level of assessment to certain commercial and industrial properties that have come before it on appeal and has awarded property tax refunds to such property owners.

The Cook County Board of Review (the "Board of Review"), through a Cook County State's Attorney, appealed the March 2000 and August 2001 decisions of the PTAB to the Illinois Appellate Court. On August 20, 2002, the Illinois Appellate Court issued an opinion affirming in part and reversing in part the March 2000 decision concerning the PTAB's use of the Sales-Ratio Studies. The PTAB challenged that decision by filing a petition for re-hearing asking the Illinois Appellate Court to reconsider portions of its decision. On June 30, 2003, the Illinois Appellate Court denied the PTAB's petition for re-hearing. Shortly thereafter, the PTAB filed a petition for leave to appeal with the Illinois Supreme Court, which is currently pending. In November of 2002, the Illinois Appellate Court heard oral arguments on the appeal of the PTAB's August 2001 decision concerning the two and one-half times level of assessment. The Illinois Appellate Court has not yet released its opinion in that appeal.

If either of the PTAB decisions were affirmed in a final judicial decision, the lower levels of assessments would be applied to all property tax appeals then pending before either the PTAB or before a court, resulting in corresponding property tax refunds that the Board would be obligated to pay. At present, however, the Board is unable to predict the amount of any such refunds, all of which would be funded from the Board's future general revenues.

d. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2003, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2003.

e. Asbestos and Lead Abatement

Under Federal and State asbestos and lead abatement laws and guidelines, CPS will be required to perform significant amounts of asbestos and lead abatement in school facilities. The cost of the asbestos and lead abatement is estimated to be substantial. These future costs will be recorded as expenditures when the work is performed. Although the amount, funding and timing of the future expenditures required is uncertain, CPS intends to comply with all Federal and State asbestos and lead abatement laws and guidelines.

f. Wrongful Death Claim

In Della Coleman, as Special Administrator of the Estate of Derrick Spencer v. Board of Education, the family of Derrick Spencer, an eighth grade student, filed suit against the Board and Quality Inn Hotels for damages arising from Derrick's drowning while on a field trip with other eighth grade students from the Goldblatt Elementary School. The drowning occurred in Ohio on May 24, 2002, after one of Derrick's

classmates pushed him into the pool at the Quality Inn Hotel. The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at Quality Inn Hotel; failing to assess Derrick's swimming skills; failing to monitor the Goldblatt students in and around the swimming pool; failing to follow Board policies regarding school trips, and; failing to protect Derrick from the dangerous water conditions at the Quality Inn Hotel. A finding of liability on the part of CPS cannot be predicted as either probable nor remote at this juncture.

g. Dispute Over Pension Fund Claims for Reimbursement

A dispute exists between the Board and the Public School Teachers' Pension and Retirement Fund (the "Fund") regarding whether the Board has the right under the Illinois Pension Code, to require employees who want to take advantage of the Early Retirement Option ("ERO") to apply for it by the middle of May of any year that the ERO is offered to teachers. The Board is required to contribute a specified amount to the Fund for each employee selecting the ERO.

The Fund has notified the Board of its position that the Board does not have a right to impose a deadline date on eligible employees to apply for the ERO. The Fund has represented that it intends to reach out to those employees who would have been eligible for the ERO under its analysis and offer them the opportunity to retire. Under this scenario, thirty percent (30%) of all teachers who have reached the age of 55 years and have at least 20 years, but less than 34 years, of service credit would be able to take advantage of the ERO in the years it was authorized by the Board. The Fund has also represented that it will send the Board an invoice for the Board's contribution, and would also, if the Board refuses to pay, take legal action. No legal action has been taken by the Fund against the Board as of the date of the audit opinion.

Should the Fund's interpretation be found correct in a court action, the Board will be required to pay the Fund the specified contribution for each employees who elect the ERO. While it is not possible to know with any certainty the number of employees who elects the ERO under these circumstances, if the maximum number (30% of eligible employees) take advantage of it, the Board's estimated liability could be approximately $38 million. The Board is unable to predict the outcome of this dispute at the present time.

h. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers' compensation, torts, property tax objections, and other matters, arising out of CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2003, in excess of related insurance coverage with respect to certain claims, are not determinable at this time. In the opinion of CPS management and legal counsel, the final resolution of these claims and legal actions will not be material to CPS' financial statements as of June 30, 2003.

NOTE 16. SUBSEQUENT EVENTS

Charter Schools Loans

In July of 2003, the CPS entered into a ground lease agreement, effective August 1, 2003, with Perspectives Charter School whereby the Board has agreed to act as guarantor for up to $4.5 million in construction loans.

Qualified Zone Academy Bonds (Series 2003C)

In October 2003, CPS issued $4,585,000 in Qualified Zone Academy General Obligation Bonds (Series 2003C). The bonds were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own the Series 2003C bonds will be entitled to a credit against taxable income. Net proceeds of $4,412,244 from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies known as Amundsen High School and Bowen High School.

New Teacher Contract

In November of 2003, rank and file members of the Chicago Teachers Union approved a new four year collective bargaining agreement. Terms of the agreement provided teachers with 4% raises in fiscal years 2004 through 2007. These amounts are subject to increase if the Board receives additional funding from certain sources.

Unlimited Tax General Obligation Bonds (Series 2003D)

In December 2003, CPS issued $257,925,000 in Unlimited Tax General Obligation Bonds (Series 2003D). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, to pay capitalized interest on the bonds, to pay costs of issuance of the bonds, and for other lawful purposes. As a result of the issuance, CPS recorded net proceeds of $249,637,634.79 in the Capital Improvement Fund. The Series 2003D bonds were issued as Auction Rate Securities (variable rate) with a final maturity date of March 1, 2034 in four sub-series as follows:

Sub-series	Par Amount	Rate Reset Period	Broker-Dealer(s)
Series 2003D-1	$ 50,025,000	7-day	Goldman, Sachs & Co. Lehman Brothers
Series 2003D-2	65,000,000	35-day	Lehman Brothers UBS Financial Services Inc. RBC Dain Rauscher
Series 2003D-3	71,450,000	35-day	Lehman Brothers M.R. Beal & Company RBC Dain Rauscher
Series 2003D-4	71,450,000	7-day	UBS Financial Services Inc. Lehman Brothers Goldman, Sachs & Co.
Total Par Amount	$ 257,925,000		

Upon closing the Series 2003B bonds, CPS also entered into two interest rate swap agreements with Lehman Brothers Special Financing Inc. and Goldman Sachs Capital Markets L.P. for notional amounts of $95,350,000 and $90,000,000 respectively. The $185,350,000 aggregate notional amount of the swaps represents the principal amount of the Series 2003D-3 bonds, the Series 2003D-4 bonds and a portion of the Series 2003D-2 bonds. The swap agreements mature on March 1, 2034 and the notional amounts decline by the same amount of the associated principal amortization of the bonds. Under the swap agreements, the swap providers agree to pay a variable rate of interest and the Board agrees to pay a fixed rate of interest on the notional principal amount of the swaps.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture not summarized elsewhere in this Official Statement. Reference is made to the Indenture for a complete description thereof. The discussion herein is qualified by such reference.

DEFINITIONS OF CERTAIN TERMS

"Act" means the Local Government Debt Reform Act of the State, as amended.

"Additional Bonds" means any alternate bonds issued in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged 2004A Alternate Revenues with the Bonds as authorized by the Indenture.

"Alternate Bonds" means general obligation bonds payable from any revenue source as provided by the Act, particularly Section 15 thereof.

"*Alternate Revenues Account*" means the account of that name in the Debt Service Fund established in the Indenture.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Authorized Officer" means (i) any Designated Official; (ii) the Controller and Chief Operating Officer of the Board acting together or (iii) any other officer or employee of the Board authorized to perform specific acts or duties hereunder by resolution duly adopted by the Board.

"Board" means the Board of Education of the City of Chicago, as governed by the Chicago Board of Education, created and established pursuant to Article 34 of the School Code.

"Bond Counsel" means any nationally recognized firm(s) of municipal bond attorneys approved by the Board and acceptable to the Trustee.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means MBIA Insurance Corporation, the issuer of the Bond Insurance Policy.

"Bond Payment Account" means the Bond Payment Account established in the Indenture.

"Bond Resolution" means Resolution No. 04-324-RS3 , adopted by the Board on the 24th day of March, 2004, authorizing the issuance of the Bonds.

"Bond Year" means each annual period beginning on December 2 of a calendar year to and including December 1 of the next succeeding calendar year.

"Bonds" means the $205,410,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A, of the Board, being issued under the Indenture and any Bonds issued hereunder in substitution or replacement therefor.

"Business Day" means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of any Fiduciary is located are authorized by law or executive order to close (and such Fiduciary is in fact closed).

"Code and Regulations" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

"Costs of Issuance Account" means the Costs of Issuance Account established in the Indenture.

"Counsel's Opinion" or "Opinion of Counsel" means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to the Board (including the General Counsel to the Board) or Bond Counsel.

"County Clerks" means, collectively, the County Clerks of The Counties of Cook and DuPage, Illinois.

"County Collectors" means, collectively, the County Treasurers of The Counties of Cook and DuPage, Illinois, in their respective capacities as county collector, or, respectively, such other officer as may be lawfully appointed in the future to serve as county collector in either of said counties.

"Current Funds" means moneys which are immediately available in the hands of the payee at the place of payment.

"Debt Service Fund" means the Debt Service Fund established in the Indenture.

"Defeasance Government Obligations" means Government Obligations which are not subject to redemption other than at the option of the holder thereof.

"Defeasance Obligations" means (i) Defeasance Government Obligations and (ii) Pre-refunded Municipal Obligations.

"Deposit Date" means February 15 of each year or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes pursuant to the Indenture.

"Designated Official" means (i) the President of the Board; (ii) the Chief Financial Officer of the Board or (iii) any other officer of the Board authorized to perform specific acts and duties hereunder by resolution duly adopted by the Board.

"DTC" means The Depository Trust Company, New York, New York, as securities depository for the Bonds.

"DTC Participant" shall mean any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing Bonds with DTC pursuant to the book-entry only system described in the Indenture.

"Escrow Agent" or "*Master Escrow Agent*" means Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent under the Escrow Agreement, and any successor or successors appointed thereunder.

"Escrow Agreement" means the Restated Master Alternate Bonds Escrow Agreement, dated as of April 1, 2004, between the Board and the Escrow Agent, providing for the segregation and distribution of the Pledged Personal Property Replacement Tax Revenues, delivered in connection with the issuance of the Bonds, as from time to time hereafter supplemented and amended as provided therein.

"Escrow Fund" means the fund of that name established pursuant to the Refunding Escrow Agreement.

"Event of Default" means any event so designated and specified in the Indenture.

"Fiduciary" or *"Fiduciaries"* means the Trustee, the Registrar and any Paying Agent, or any or all of them, as may be appropriate.

"Forward Supply Contract" means any contract entered into between the Board and a supplier of Investment Securities selected by or pursuant to the direction of the Board (a *"Counterparty"*) pursuant to which the Counterparty agrees to sell to the Board (or to the Trustee on behalf of the Board) and the Board (or the Trustee on behalf of the Board) agrees to purchase specified Investment Securities on specific dates at specific purchase prices, all as established at the time of the execution and delivery of such contract and as set forth in such contract. Any amounts due and owing from the Board to the Counterparty pursuant to any Forward Supply Contract (other than the specified purchase prices of the Investment Securities set forth therein) shall be treated as current operating expenses of the Board subject to annual appropriation, and shall not constitute indebtedness of the Board.

"Government Obligations" means (i) any direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and (ii) certificates of ownership of the principal of or interest on obligations of the type described in clause (i) of this definition, (a) which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System in the capacity of a custodian; (b) the owner of which certificate is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations and (c) for which the underlying obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Indenture" means the Trust Indenture, dated as of April 1, 2004, by and between the Board and the Trustee, as from time to time amended and supplemented.

"*Insured Bonds*" means those Bonds that are insured as to payment of the principal and interest under the Bond Insurance Policy.

"Interest Sub-Account" means the sub-account of that name in the Bond Payment Account established in the Indenture.

"Investment Policy" means the Investment Policy approved by the Board, as currently in effect and as may be amended from time to time.

"Investment Securities" means any of the following securities authorized by law and the Investment Policy as permitted investments of Board funds at the time of purchase thereof:

(i) Government Obligations;

(ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(iii) Senior debt obligations which at the time of purchase are rated "AAA" by Standard & Poor's Ratings Services (*"S&P"*) and "Aaa" by Moody's Investors Service, Inc. (*"Moody's"*) issued by Fannie Mae or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government agencies;

(iv) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(v) Commercial paper which is rated at the time of purchase no less than "A-1" or above by S&P and "P-1" by Moody's and which matures not more than 180 days after the date of purchase;

(vi) Investments in a money market fund which at the time of purchase is rated "AAAm" or "AAAm-G" or better by S&P, including those of the Trustee;

(vii) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the Regulations issued thereunder. The government securities that are the subject of such repurchase agreements, unless registered or inscribed in the name of the Board, shall be

purchased through banks or trust companies authorized to do business in the State of Illinois;

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract.

"1998 Authorization" means the authorization adopted by the Board pursuant to Resolution No. 98-0826-RS7 on August 26, 1998, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed $900,000,000.

"Outstanding" means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Any Bonds canceled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), *provided that* if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(iv) Bonds deemed to have been paid as provided in the Indenture.

"Owner" means any person who shall be the registered owner of any Bond or Bonds.

"Paying Agent" means the Trustee and any other bank, national banking association or trust company designated by a Designated Official as paying agent for the Bonds, and any successor or successors appointed by a Designated Official under the Indenture.

"Personal Property Replacement Tax Revenues" means the amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act of the State, as amended, or from such successor or replacement fund or act as may be enacted in the future.

"Pledged 2004A Alternate Revenues" means the (i) Pledged 2004A PPRT Revenues and (ii) the Pledged 2004A State Aid Revenues, and pledged hereunder as security for the Bonds.

"Pledged 2004A PPRT Revenues" means Personal Property Replacement Tax Revenues received or to be received by the Board in any Year remaining after any required allocation thereof to provide for the payment of (i) the Statutory Claims and (ii) the Series 1996 Bonds and the Series 1997 Bonds, in amounts each year as shall provide for the debt service payments set

forth in Exhibit C in the Indenture in each year under the heading "PPRT Revenues" and the provision of not less than an additional .25 times such amounts in such years.

"*Pledged 2004A State Aid Revenues*" means State Aid Revenues not in excess of amounts available under the 1998 Authorization in amounts each year as shall provide for the debt service payments set forth in Exhibit C in the Indenture in each year under the heading "State Aid Revenues" and the provision of not less than an additional .25 times such amounts in such years.

"Pledged Taxes" means the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount and pledged hereunder as security for the Bonds.

"Pledged Taxes Account" means the account of that name in the Debt Service Fund established in the Indenture.

"PPRT Revenues Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Alternate Revenues Account established in the Indenture.

"Pre-refunded Municipal Obligations" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the *"escrow")*, in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

"Principal Sub-Account" means the sub-account of that name in the Bond Payment Account established in the Indenture.

"Prior Bonds" has the meaning given in the recitals in the Indenture.

"Rating Services" means the nationally recognized rating services, or any of them, that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the Board, and which ratings are then currently in effect.

"Record Date," means, with respect to any interest payment date for the Bonds, the 15th day (whether or not a Business Day) of the calendar month next preceding such interest payment date.

"Redemption Price" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

"Refunded Bonds" has the meaning given in the recitals in the Indenture.

"Refunding Escrow Agent" means Amalgamated Bank of Chicago, Chicago, Illinois and any successor or successors appointed under the Refunding Escrow Agreement as therein provided.

"Refunding Escrow Agreement" means the Refunding Escrow Agreement dated as of April 1, 2004, between the Board and the Refunding Escrow Agent as from time to time amended.

"Registrar" means the Trustee and any other bank, national banking association or trust company appointed by a Designated Official under the Indenture and designated as registrar for the Bonds, and its successor or successors.

"School District" means the school district constituted by the City of Chicago, Illinois pursuant to Article 34 of the School Code of the State, as amended, and governed by the Board.

"Series 1997A Bonds" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 1997A, of the Board.

"Series 1998 Bonds" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 1998, of the Board.

"Series 1998B-1 Bonds" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 1998B-1, of the Board.

"Series 1999A Bonds" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 1999A, of the Board.

"SLG's" means United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series.

"State" means the State of Illinois.

"State Aid Revenues" means State Aid payments received by the Board in any Year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future.

"*State Aid Revenues Sub-Account*" means the sub-account of that name in the Alternate Revenues Account established in the Indenture.

"Statutory Claims" mean those claims, currently for pension or retirement obligations previously levied and collected from extensions of taxes against personal property, that are

required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of the State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future.

"Supplemental Indenture" means any Supplemental Indenture between the Board and the Trustee authorized pursuant to the Indenture.

"Tax Agreement" means the Tax Regulatory Agreement, dated the date of issuance of the Bonds, executed by the Board and the Trustee.

"Trustee" means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided. The "principal corporate trust office" of the Trustee means One West Monroe Street, Chicago, Illinois 60603, or such other address as is provided by the Trustee.

"Trust Estate" means the Pledged 2004 Alternate Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

"Year" or *"year"* means a calendar year.

PLEDGE OF TRUST ESTATE

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board in the Indenture pledges and grants a lien upon the following Trust Estate to the Trustee, to the extent provided in the Indenture:

(a) The Pledged 2004 Alternate Revenues and the Pledged Taxes; provided that the pledge of Personal Property Replacement Tax Revenues to the Bonds is on a parity with the pledge of such revenues to the payment of the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds and the Series 1999A Bonds and provided further that the pledge of State Aid Revenues to the Bonds is on a parity with the pledge of such revenues to outstanding alternate bonds of the Board payable from State Aid Revenues and issued pursuant to the 1998 Authorization;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture; and

(c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

THE BONDS ARE GENERAL OBLIGATIONS

The Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged 2004 Alternate Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional

or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will to the extent required by law be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Bonds have been paid from the Pledged 2004 Alternate Revenues for a complete fiscal year of the Board.

ADDITIONAL BONDS PAYABLE FROM PLEDGED 2004 ALTERNATE REVENUES

The Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged 2004 Alternate Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Board reserves the right to issue Additional Bonds payable from all or any portion of the Personal Property Replacement Tax Revenues or State Aid Revenues available under the 1998 Authorization or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged 2004 Alternate Revenues with the Bonds; *provided, however,* that no Additional Bonds may be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Personal Property Replacement Tax Revenues and State Aid Revenues available under the 1998 Authorization subordinate to the Bonds. Such subordinate obligations will be paid from Personal Property Replacement Tax Revenues and State Aid Revenues available under the 1998 Authorization available to the Board in each year in excess of those required to be deposited in the Alternate Revenues Account during such year.

PROVISIONS REGARDING PAYMENT OF BONDS

The principal and Redemption Price of the Bonds is payable at the designated corporate trust offices of the Trustee, in the City of Chicago, Illinois, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed for the Bonds pursuant to the Indenture. Interest on the Bonds is payable by check or bank draft mailed or delivered by the Trustee to the Owners as the same appear on the registration books of the Board maintained by the Registrar as of the Record Date or, at the option of any Owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer of Current Funds to such bank in the continental United States as said Owner shall request in writing to the Registrar. The Bonds are payable, with respect to interest, principal, redemption premium (if any) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

PROVISIONS REGARDING TRANSFER AND EXCHANGE OF BONDS

Subject to the operation of the global book-entry only system described in the body of this Official Statement, the following provisions apply to the transfer and exchange of Bonds under the Indenture. Each Bond will be transferable only upon the registration books of the Board, which will be kept for such purpose by the Registrar, by the Owner in person or by its attorney duly authorized in writing, upon surrender thereof with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney. Upon

the transfer of any such Bond, the Board will issue in the name of the transferee a new Bond or Bonds in Authorized Denominations of the same aggregate principal amount. Upon surrender at the principal office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney, any Bond may, at the option of the Owner and upon payment of any charges sufficient to reimburse the Trustee for any tax, fee or other governmental charge required to be paid, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denominations. The Registrar and the Trustee will not be required to make any registration, transfer or exchange of any Bond during the period between each Record Date and the next succeeding interest payment date for such Bond, or after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving of notice of such redemption.

ESTABLISHMENT AND APPLICATION OF COSTS OF ISSUANCE ACCOUNT

The Costs of Issuance Account is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Moneys on deposit in the Costs of Issuance Account will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of costs of issuing the Bonds upon receipt by the Trustee of a certificate of an Authorized Officer of the Board describing the costs of issuance to be paid or reimbursed with such moneys.

Moneys in the Cost of Issuance Account will be invested as described below under "INVESTMENT OF FUNDS – INVESTMENT OF CERTAIN MONEYS".

INVESTMENT OF FUNDS

Investment of Certain Moneys

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and the Costs of Issuance Account will be invested and reinvested by the Trustee at the direction of a Designated Official in Investment Securities within the parameters established in the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account. Such Designated Official may direct the Trustee to make any such investments or reinvestments through the use of a Forward Supply Contract, to the extent permitted by State law and the Investment Policy. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the Indenture will be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment will be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment will be charged to such Fund,

Account or Sub-Account. Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture will be made by the Trustee as often as may be necessary to determine the amounts held therein. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein will be valued as provided in the following paragraph.

The value of Investment Securities will mean the fair market value thereof, *provided, however,* that all SLG's will be valued at par and those obligations which are redeemable at the option of the holder will be valued at the price at which such obligations are then redeemable.

Except as otherwise provided in the Indenture, the Trustee at the written direction of a Designated Official will sell at the best price obtainable, or present for redemption, any Investment Security held in any Fund, Account or Sub-Account held by the Trustee whenever it will be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be.

PARTICULAR COVENANTS AND REPRESENTATIONS OF THE BOARD

Covenants Regarding Pledged 2004A Alternate Revenues

The Board has directed the Department of Revenue of the State to deposit all Personal Property Replacement Tax Revenues to be allocated and paid to the Board in each year directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law or procedures with respect to the allocation and distribution of the Personal Property Replacement Tax Revenues or (ii) necessary in connection with the issuance of Additional Bonds; provided, that no such modification or amendment shall provide for the deposit with the Escrow Agent of less than all of the Personal Property Replacement Tax Revenues to be allocated and paid to the Board during the year.

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged 2004A Alternate Revenues to the payment of the Bonds and the provision of not less than an additional .25 times debt service.

The Board and its officers will comply with all present and future applicable laws, including the provisions of Article 18 of the School Code, in order to assure that the Pledged 2004 Alternate Revenues may be allocated and paid to the Board for application as provided in the Indenture.

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law, procedures, rules or regulations

thereunder with respect to the collection and distribution of ad valorem property taxes; *provided* that no such modification or amendment shall provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Official Statement under the heading "SECURITY FOR THE SERIES 2004A BONDS –Pledged Taxes," the Board shall direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement shall be filed with (i) the County Clerks, in a timely manner to effect such abatement; and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

As long as there are any Outstanding Bonds, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

Indebtedness and Liens

The Board will not issue any bonds or other evidences of indebtedness, other than the Bonds and Additional Bonds, which are secured by a pledge of or lien on the Pledged 2004A Alternate Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture, and will not, except as (i) to the parity claim on the Pledged 2004A Alternate Revenues for the payment of the Series 2004B Bonds; (ii) provided in the Indenture with respect to future parity pledges, and (iii) provided in the Indenture with respect to future subordinate claims, create or cause to be created any lien or charge on the Pledged 2004A Alternate Revenues, the Pledged Taxes or such moneys, securities or funds.

Accounts and Reports

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Pledged 2004A Alternate Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, will at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

Arbitrage

The Board will not at any time permit any of the proceeds of the Bonds or any other funds of the Board to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in the Code and Regulations.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

Each of the following events constitutes an Event of Default under the Indenture:

(1) If a default occurs in the due and punctual payment of interest on any Bond when and as such interest becomes due and payable;

(2) If a default occurs in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same becomes due and payable, whether at maturity or by call for redemption or otherwise;

(3) If a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action within the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or

(4) If the Board files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

Proceedings Brought By Trustee

There is no provision for the acceleration of the maturity of the Bonds if an Event of Default occurs under the Indenture.

If an Event of Default happens and is not remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction will proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, will deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All actions against the Board under the Indenture must be brought in a state or federal court located in the State of Illinois.

The Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and

conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or for the exercise of any trust or power conferred upon the Trustee, *provided* that the Trustee will have the right to decline to follow any such direction if the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Application of Trust Estate and Other Moneys on Default

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged 2004A Alternate Revenues and Pledged Taxes and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it; and

(2) to the payment of the principal of, Redemption Price and interest on the Bonds then due, as follows:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee

nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Restrictions on Bondholders' Actions

No Owner of any Bond will have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner has previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State or to institute such suit or proceeding in its own name, and unless such Owners will have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

No Remedy Exclusive

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy will be cumulative and will be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Waiver

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on, or principal or Redemption Price of any of the Bonds when due. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

PROVISIONS RELATING TO TRUSTEE

Resignation and Removal of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Bonds and the other Fiduciaries, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will take effect immediately on the acceptance of such appointment by such successor whether or not the date specified for such resignation to take

effect has arrived. If a successor Trustee has not been appointed and accepted such appointment within a period of 90 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

The Trustee may be removed at any time by an instrument in writing approved by and executed in the name of the Board and delivered to the Trustee; *provided, however,* that if an Event of Default will have occurred and be continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Bonds then Outstanding excluding any Bonds held by or for the account of the Board. The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board.

Appointment of Successor Trustee. In case at any time the Trustee shall resign, be removed or become incapable of acting, or is adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, is appointed, or if any public officer or court takes charge or control of the Trustee, or of its property or affairs, the Board will appoint a successor Trustee. The Board will cause notice of any such appointment made by it to be mailed to all Owners of the Bonds and the Bond Insurer.

If no appointment of a Trustee is made by the Board as described in the foregoing paragraph, the Owner of any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Indenture must be a bank or trust company or national banking association, doing business and having a corporate trust office in the State of Illinois, and having capital stock and surplus aggregating at least $15,000,000, or a wholly-owned subsidiary of such an entity, if there be such a bank, trust company, national banking association or subsidiary willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures for any one or more of the following purposes:

(1) To impose additional covenants or agreements to be observed by the Board;

(2) To impose other limitations or restrictions upon the Board;

(3) To surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;

(4) To confirm, as further assurance, any pledge of or lien upon the Pledged 2004A Alternate Revenues, the Pledged Taxes or any other moneys, securities or funds;

(5) To make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds;

(6) To cure any ambiguity, omission or defect in the Indenture;

(7) To provide for the appointment of a successor securities depository;

(8) To provide for the appointment of any successor Fiduciary; and

(9) To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners. Any Supplemental Indenture not effective in accordance with the foregoing provisions will take effect only if permitted and approved and in the manner described below under the heading "AMENDMENTS - Consent of Owners."

AMENDMENTS

General. Except for Supplemental Indentures not requiring consent of the Owners as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to (i) consent to and approve the execution by the Board and the Trustee of such other Supplemental Indenture or Indentures as may be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any Supplemental Indenture; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, (b) except for the pledge of the Pledged 2004A Alternate Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Owner to the extent otherwise afforded under the Code and Regulations.

Notwithstanding the foregoing, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond

Insurer shall be deemed the owner of the Insured Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

Consent of Owners. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereof whether or not such subsequent Owner has notice thereof, *provided, however,* that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

DEFEASANCE

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon

request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee will thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date will be deemed to have been paid as described in the preceding paragraph if the Board has delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to mail the required notice of redemption of any Bonds so to be redeemed, (c) either moneys in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which, in the opinion of a nationally recognized firm of independent public accountants, when due will provide moneys which will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal and Redemption Price of and interest on said Bonds as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any manner or other Defeasance Obligations substituted therefor (any such direction to sell, redeem, invest, reinvest, remove or substitute to be referred to as a *"Subsequent Action")* unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an opinion of counsel for the Board to the effect that such Subsequent Action has been duly authorized by all necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Bonds after the taking of the Subsequent Action will remain sufficient to pay, without any further reinvestment thereof, the principal and Redemption Price of and interest on said Bonds at or prior to their maturity in the manner provided in the preceding paragraph; (iii) an Opinion of Bond Counsel to the effect that the

Subsequent Action will not adversely affect any exemption from federal income tax of the interest paid on the Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

APPENDIX C

INFORMATION CONCERNING
PERSONAL PROPERTY REPLACEMENT TAX REVENUES

Description of Personal Property Replacement Taxes. Through December 31, 1997, the Personal Property Replacement Taxes were comprised of three taxes as described in the following table:

TYPE OF TAX	RATE[1]
Additional income tax on corporations	2.5% of net income[2]
Additional income tax on partnerships, trusts and Subchapter S corporations	1.5% of net income[2]
Tax on invested capital for public utilities providing gas, telecommunications, electric and water services	0.8% of invested capital[3]

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(1) Beginning on July 1, 1984 certain taxpayers who pay Personal Property Replacement Taxes were allowed to claim a credit of 0.5 percent of the basis of certain qualified property placed in service during that year. On July 1, 1986, the credit was increased to a maximum of 1 percent for businesses whose employment in Illinois increases. This credit is scheduled to expire December 31, 2003.

(2) Determined in accordance with the Illinois Income Tax Act.

(3) Determined in accordance with applicable State taxes on the gross receipts of such public utilities. See "– Recent Changes in Personal Property Replacement Taxes" below for a discussion of recently enacted amendments relating to the tax on invested capital of telecommunications and electric utilities.

The income tax component of the Personal Property Replacement Taxes is paid on an estimated basis with the corporation's regular state income tax quarterly payments. A final return is due after the end of the corporation's taxable year. The tax on invested capital of utilities applied to business entities that sell or provide electric, gas, water or telecommunications services in the State, except for municipal and cooperative corporations. The invested capital tax is paid with estimated payments by the fifteenth day of March, June, September and December, with a final return due by the fifteenth day of March following the tax year.

Recent Changes in Personal Property Replacement Taxes. Effective January 1, 1998, Public Act 90-154 repealed the tax on the invested capital on telecommunications utilities and provides instead for the imposition of an infrastructure maintenance fee upon all telecommunications retailers in the State. This fee imposed is equal to .5% of all gross charges imposed by the retailer for telecommunications, other than wireless telecommunications, originating or received in the State. This fee is to be paid monthly by telecommunications retailers to the State. Public Act 90-154 states its intent that this statewide infrastructure

maintenance fee will be a replacement for the tax currently imposed on the invested capital of telecommunications utilities.

Effective January 1, 1998, Public Act 90-561 repealed the tax on the invested capital of electric utilities (other than electric co-operatives) and provides instead for the imposition of a tax on the distribution of electricity. This tax is imposed on electric utilities on a per kilowatt basis, with the rates varying with the amount of electricity distributed. This tax is to be paid quarterly by electric utilities to the State. In any given year, the total statewide collection of the tax cannot exceed $145.3 million plus the lesser of CPI and 5%. Public Act 90-561 states its intent that this new tax on the distribution of electricity will be a replacement for the tax currently imposed on invested capital of electric utilities.

The telecommunications infrastructure maintenance fee and the tax on the distribution of electricity described above are each to be collected and allocated to the Board and other taxing districts in accordance with existing allocation formulas for the Personal Property Replacement Taxes. See "SECURITY FOR THE SERIES 2004A BONDS – Personal Property Replacement Taxes – Allocation and Payment."

Future Legislative Action. Set forth above and under "SECURITY FOR THE SERIES 2004A BONDS – Personal Property Replacement Taxes" is a description of the existing provisions of the State Revenue Sharing Act relating to the application, collection, allocation, appropriation and payment of the Personal Property Replacement Taxes and of recently enacted amendments relating to the invested capital tax on telecommunications and electric utilities. These provisions could be further amended, modified or repealed by future action of the Illinois General Assembly. Such amendment, modification or repeal could have a material effect on the amount and/or the timing of receipt of the Personal Property Replacement Taxes collected and allocated by the State or on the amount and/or the timing of receipt of the Personal Property Replacement Taxes to be received by the Board and deposited with the Master Escrow Agent. See "SECURITY FOR THE SERIES 2004A BONDS – Personal Property Replacement Taxes – Prior Statutory Claims."

Personal Property Replacement Tax Statistical Tables

The following is the schedule of Personal Property Replacement Taxes allocated by the State (including allocations to the Board) for the calendar years 1994 through June 30, 2003. For a discussion of the prior statutory claim on Personal Property Replacement Taxes, see "SECURITY FOR THE SERIES 2004A BONDS – Personal Property Replacement Taxes – Prior Statutory Claims."

Statewide Replacement Tax Data [1]

Calendar Year	Invested Capital Tax Collections	Business Income Tax Collections (Net of Refunds)	Net Adjustments [2]	Total Replacement Tax Allocations to Local Govts.	Board Percent [4]
1994	$ 218,208,943	$ 488,055,514	$ (10,102,065)	$ 696,162,392	14.0`%
1995	209,1 16,684	611,398,538	(6,323,806)	814,191,416	14.0%
1996	204,855,487	613,945,039	(9,445,465)	809,355,061	14.0%
1997	207,588,506	681,758,792	7,043,365	896,390,663	14.0%
1998	206668,412	733,695,881	42,277,861	982,642,154	14.0%
1999	212,548,109	733,006,815	13,810,698	959,365,712	14.0%
2000	210,658,641	846,070,645	7,675,153	1,064,404,439	14.0%
2001	216,949,091	682,900,875	63,832,416	963,682,382	14.0%
2002	173,7S2,773	568,278,611	27, 725,367	769,786,751	14.0%
2003[3]	170,982,512	579,537,177	26,969,877	777,479,567	14.0%

[1] Source: Illinois Department of Revenue

[2] Consists of adjustments for administrative rules, interest earned on deposits, interfund transfers, timing of collections and payments and related items.

[3] Replacement tax collection for January 1, 2003 - June 30, 2003 only.

[4] Percentage rounded.

Board Replacement Tax Data [1]

Calendar Year	Statutory Claims [1] Allocations To Board	Allocations for Prior Debt Service [2]	Allocations for Pension Obligations [3])	Remainder after Allocations for Statutory Claims	Pro-Forma Pledged Revenues [4]	Fiscal Year Recorded Revenues
1994	$ 97,489,664	$ 548,625	$ 11,420,422	$ 85,520,617	$ 86,069,242	$ 9,,584,000
1995	114,019,423	--	12,258,423	101,761,000	101,761,000	109,370,000
1996	113,342,071	--		113,342,071	113,342,071	113,333,000
1997	125,530,542	--		125,530,542	125,530,542	118,585,000
1998	137,609,020	--		137,609,020	137,609,020	129,955,000
1999	134,356,610	--		134,356,610	134,356,610	137,749,536
2000	149,016,621	--		149,016,621	149,016,621	147,657,000
2001	134,915,533	--		134,915,533	134,915,533	137,744,000
2002	107,770,145	--		107,770,145	107,770,145	114,313,000
2003[5]	108,847,139	--		108,847,139	108,847,139	105,959,557

[1] Source: Board of Education of the City of Chicago.

[2] All Board's debt for which there was a replacement tax obligation was retired by the end of 1995.

[3] The amount of the Statutory Claim for pension and retirement purposes has varied over the past 10 years, primarily as a result of (a) increases in required employer contributions funded from property taxes as a consequence of increased payroll and employee contributions (1985-1990 and 1994-1995), (b) a temporary suspension of the statutory requirement that property taxes be applied to pension and retirement purposes (1991-1993), and (c) the suspension of the statutory requirement that, property taxes be applied to pension and retirement purposes (1996 and all years thereafter).

[4] Reflects reductions to pay applicable Statutory Claims. All Statutory Claims with respect to debt service have been paid and, under the Statue Revenue Sharing Act, no future Statutory Claims with respect to debt service will arise or need to be paid.

[5] Replacement tax collection for January 1, 2003- June 30, 2003 only.

Following is the schedule of Personal Property Replacement Taxes received by the Board from January 1994 through December 2003.

Monthly Summary of the Total Allocations to the Board of Education [1]

Calendar Year	January	March	April	May	July	August	October	December	Total
1994	$ 17,482,536	$ 3,388,668	$ 20,505,215	$ 10,741,635	$ 19,282,821	$ 2,456,079	$ 18,923,710	$ 4,709,000	$ 97,489,664
1995	17,815,573	5,460,266	24,455,232	12,664,283	20,893,057	3,673,135	21,525,148	7,532,729	114,019,423
1996	20,073,858	4,620,306	22,931,153	11,766,157	22,142,555	4,155,457	20,566,593	7,085,992	113,342,071
1997	19,922,401	6,373,475	25,500,721	15,807,429	24,567,711	4,039,586	22,542,153	6,777,066	125,530,542
1998	20,065,684	7,513,742	28,179,417	17,381,659	23,455,991	9,333,844	20,907,185	10,771,498	137,609,020
1999	18,839,603	7,374,663	28,306,409	15,119,232	27,097,102	5,357,190	25,158,521	7,103,890	134,356,610
2000	16,886,066	9,745,046	39,992,847	14,519,931	28,893,667	5,385,783	25,132,569	8,503,330	149,059,239
2001	19,256,949	9,853,297	25,603,017	18,352,614	25,636,258	3,148,346	24,440,723	8,642,922	134,934,126
2002	16,842,147	6,478,868	25,630,253	12,181,929	16,948,258	2,701,807	19,106,650	7,911,061	107,800,973
2003	14,730,281	6,208,549	25,757,619	12,117,348	17,426,241	1,749,411	16,757,860	14,132,368	108,879,677

[1] Source: Board of Education of the City of Chicago

APPENDIX D

FORM OF OPINION

April ___, 2004

Board of Education of the
City of Chicago
125 South Clark Street
Chicago, Illinois 60603

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2004A

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the "Board") of its $205,410,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004A (the "Bonds "). As Co-Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Bonds are being issued pursuant to a Trust Indenture dated as of April 1, 2004 (the "Indenture"), between the Board and Amalgamated Bank of Chicago, as trustee (the "Trustee"). The Bonds are issued pursuant to the authority of the School Code of the State of Illinois, as amended, the Local Government Debt Reform Act of the State of Illinois, as amended, and a resolution duly adopted by the Board on March 24, 2004 (the "Bond Resolution") and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

The Bonds are issued for the purpose of (i) refunding a portion of the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 (the "Series 1996 Bonds"), Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the "Series 1997 Bonds"), and Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 2000A (the "Series 2000A Bonds"), of the Board (the refunded maturities of the Series 1996 Bonds, the Series 1997 Bonds and the Series 2000A Bonds are referred to collectively herein as the "Refunded Bonds") and (ii) paying costs related to the issuance of the Bonds. The Bonds are being issued in fully registered form and mature and bear interest as described in the Indenture. The Bonds are subject to redemption prior to maturity at the times and at the redemption prices as set forth in the Indenture.

To provide security for the Bonds, the Board will provide for the deposit of Personal Property Replacement Tax Revenues directly with Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent (the "Escrow Agent"), for application to the payment of the Statutory Claims and the principal of and interest on the Bonds and the outstanding Series 1996 Bonds, Series 1997 Bonds, Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the "Series 1997A Bonds"), Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the "Series 1998 Bonds"), Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998B-1 (the "Series 1998B-1 Bonds"), and Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A (the "Series 1999A Bonds"), of the Board, pursuant to the terms of a Second Restated Master Alternate Bonds Escrow Agreement, dated as of April 1, 2004 (the "Restated Escrow Agreement"). To provide additional security for the Bonds, the Board will provide for the deposit of State Aid Revenues not in excess of amounts available under the 1998 Authorization and the Pledged Taxes with the Trustee.

Pursuant to a Refunding Escrow Agreement dated as of April 1, 2004 (the "Refunding Escrow Agreement"), by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as refunding escrow agent (the "Refunding Escrow Agent"), the Board has established an irrevocable trust fund (the "Refunding Escrow Fund") with the Refunding Escrow Agent for the purpose of paying the interest on and redemption price of the Refunded Bonds as provided therein. Direct obligations the United States of America have been deposited in the Refunding Escrow Fund for the purpose of providing for the timely payment of the Refunded Bonds at the times and in the amounts described in the Refunding Escrow Agreement.

The Bonds are dated the date hereof and are due (subject to optional redemption as provided in the Indenture) on December 1 of the years and in the amounts and bearing interest at the rates per annum as follows:

MATURITY DATE (DECEMBER 1)	PRINCIPAL AMOUNT	INTEREST RATE
2011	$ 25,000	4.00%
2012	2,965,000	5.00
2013	15,840,000	5.00
2014	18,615,000	5.00
2015	36,230,000	5.00
2016	38,020,000	5.00
2017	23,025,000	5.00
2018	24,190,000	5.00
2019	25,410,000	5.00
2020	21,090,000	5.00

In our capacity as Co-Bond Counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings of the Board adopting the Bond Resolution and authorizing, among other things, (i) the execution and delivery of the

Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement and (ii) the issuance of the Bonds;

(b) a certified copy of the Bond Resolution;

(c) executed counterparts of the Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement; and

(d) such other certifications, documents, showings and related matters of law as we have deemed necessary in order to render this opinion.

Based upon the foregoing we are of the opinion that:

1. The Board has full power and authority and has taken all necessary corporate action to authorize the execution and delivery of the Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement.

2. The Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement have each been duly and lawfully executed and delivered by the Board and, assuming the due authorization, execution and delivery by, and the binding effect on, the respective other parties thereto, the Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement are valid and binding upon the Board and enforceable in accordance with their respective terms.

3. The Indenture creates the valid pledge which it purports to create of the Trust Estate held or set aside or pledged under the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture.

4. The Bonds have been duly and validly authorized and issued in accordance with law and the Indenture and the Bonds, to the amount named, are valid and legally binding general obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture.

5. The form of Bond prescribed for said issue is in due form of law.

6. The Bonds are payable from (i) the "Pledged 2004A Alternate Revenues," being (a) the "Pledged 2004A PPRT Revenues," meaning Personal Property Replacement Tax Revenues received or to be received by the Board in any year remaining after any required allocation thereof to provide for the payment of the Statutory Claims, the Series 1996 Bonds and the Series 1997 Bonds, in amounts each year as shall provide for those debt service payments set forth on an exhibit to the Indenture and for the payment of the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds and the Series 1999A Bonds, and the provision of not less than an additional .25 times such amounts, and (b) the "Pledged 2004A State Aid Revenues," meaning State Aid Revenues not in excess of amounts available under the 1998 Authorization in amounts each year as shall provide for those debt service payments set forth on an exhibit to the Indenture and the provision of not less than an additional .25 times such amounts, and (ii) the "Pledged Taxes," being the ad valorem taxes levied against all of the taxable property in the School District without initiation as to rate or amount for the purpose of

providing funds in addition to the Pledged 2004A Alternate Revenues to pay the principal of and interest on the Bonds, and all taxable property in the School District is subject to the levy of such taxes. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

7. The Board has taken all necessary action to cause (i) the Department of Revenue of the State of Illinois to deposit the Personal Property Replacement Tax Revenues directly with the Escrow Agent, and (ii) the County Collectors of The Counties of Cook and DuPage, Illinois, to deposit the Pledged Taxes directly with the Trustee, in each case for application pursuant to the Restated Escrow Agreement and the Indenture.

8. Subject to the condition that the Board comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under present law, the Bonds are not "private activity bonds" under the Code, and interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of these covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we relied upon (i) certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be refinanced with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds and (ii) the mathematical computation of the yield on the Bonds and on certain obligations acquired with the proceeds thereof by Causey, Demgen & Moore, Inc., independent certified public accountants.

The rights of the registered owners of the Bonds and the enforceability of provisions of the Bonds, the Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds, the Indenture, the Restated Escrow Agreement and the Refunding Escrow Agreement by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

Very truly yours,

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

_____
President

Attest: _____
Assistant Secretary

STD-R-6
4/95

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APPENDIX F

GENERAL OBLIGATION BONDS
TO BE REFUNDED BY THE SERIES 2004A BONDS

Series	CUSIP	Maturity	Interest Rate %	Principal Amount $	Redemption Date	Redemption Price %
Series 1996	167501QR9	12/1/2016	6.000%	$29,255,000	12/1/2006	102%
	167501XL4	12/1/2019	6.050	29,250,000	12/1/2006	102
Total				$58,505,000		
Series 1997	167501RZ0	12/1/2015	5.800%	$16,675,000	12/1/2007	102%
	167501SA4	12/1/2016	5.800	17,630,000	12/1/2007	102
	167501RW7	12/1/2017	5.800	18,640,000	12/1/2007	102
	167501RX5	12/1/2020	5.750	62,700,000	12/1/2007	102
Total				$115,645,000		
Series 2000A	167501YR0	12/1/2012	6.000%	$2,785,000	12/1/2010	100%
	167501YS8	12/1/2013	6.000	2,955,000	12/1/2010	100
	167501YT6	12/1/2014	5.875	3,130,000	12/1/2010	100
	167501YU3	12/1/2015	5.875	3,315,000	12/1/2010	100
	167501YV1	12/1/2016	5.875	3,510,000	12/1/2010	100
	167501YW9	12/1/2017	5.875	3,715,000	12/1/2010	100
	167501YX7	12/1/2018	5.600	3,935,000	12/1/2010	100
	167501YY5	12/1/2019	5.625	4,155,000	12/1/2010	100
Total				$27,500,000		
Total Refunded				**$201,650,000**		

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