

Subject to compliance by the Board with certain covenants, in the opinion of Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Bond Counsel, under present law interest on the Bonds of each series will not be includible in the gross income of the owners thereof for Federal income tax purposes, except to the extent that such interest will be taken into account in computing the corporate alternative minimum tax and the branch profits tax. Interest on the Bonds of each series will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. See the heading "TAX EXEMPTION" herein for a more detailed discussion of some of the federal tax consequences of owning the Bonds. The interest on the Bonds of each series is not exempt from present Illinois income taxes.



\$56,000,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds



\$25,000,000
Series 2004F (Dedicated Revenues -
Albany Park Academy
Project)

\$12,500,000
Series 2004G (Dedicated Revenues -
Benito Juarez Community Academy
Project)

\$18,500,000
Series 2004H (Dedicated Revenues -
DePriest Elementary School
Project)

Dated: Date of Issuance

Due: December 1, as set forth on the inside cover

The Bonds of each series will be issued as fully registered bonds and will be registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. The Bonds of each series will be issued in denominations of \$5,000 or any integral multiple thereof. Purchases of Bonds will be made in book-entry form through DTC participants only in authorized denominations. No physical delivery of Bonds will be made to purchasers. See "THE BONDS--Book-Entry Only System."

Interest on the Bonds of each series will be payable on each June 1 and December 1, commencing June 1, 2005. Principal of, redemption premium, if any, and interest on the Bonds of each series will be paid by U.S. Bank National Association, as trustee, bond registrar and paying agent for the Bonds, to DTC, which in turn will remit such payments to its participants for subsequent distribution to the beneficial owners of the Bonds.

The Bonds of each series will be subject to optional redemption prior to maturity as described in this Official Statement.

The proceeds from the sale of the Bonds of each series will be used to (i) provide funds for the continued implementation of the Board's Capital Improvement Program (as described herein) and (ii) pay costs of issuance of the Bonds, including bond insurance premium. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO--Capital Improvement Program" and "THE BONDS--Estimated Sources and Uses of Funds."

The Bonds of each series will be payable from Pledged City Note Revenues (as described herein) for the applicable series and Pledged Taxes (as described herein) for such series. To the extent that the Pledged City Note Revenues for the applicable series are insufficient to pay the debt service on the Bonds of such series, such 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 Bonds of each series are also payable from all Funds, Accounts and Sub-Accounts established pursuant to the applicable Indenture as security for the Bonds of such series. The Pledged City Note Revenues and other security pledged to the payment of each series of Bonds are not available for the payment of the Bonds of any other series. The Bonds of each series will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. See "SECURITY FOR THE BONDS."

The scheduled payment of principal of and interest on the Bonds of each series when due will be guaranteed under an insurance policy for each series to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE."



The maturities, amounts, interest rates and yields of the Bonds of each series are set forth on the inside cover.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinion of Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Ruth Moscovitch, and by Jenner & Block LLP, Chicago, Illinois; and for the Underwriters by their Counsel, Piper Rudnick LLP, Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about December 9, 2004.

George K. Baum & Company

Cabrera Capital Markets

Gardner Rich & Company

December 2, 2004

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

SERIES 2004F (Dedicated Revenues - Albany Park Academy Project)

<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2011	\$ 890,000	4.00%	3.54%	2018	\$1,930,000	5.50%	4.13%*
2012	\$ 920,000	4.00%	3.70%	2019	\$2,040,000	5.50%	4.13%*
2013	\$1,160,000	4.00%	3.83%	2020	\$2,150,000	5.50%	4.16%*
2014	\$1,210,000	4.75%	3.93%	2021	\$2,270,000	5.50%	4.21%*
2015	\$1,465,000	5.50%	3.99%*	2022	\$2,395,000	5.50%	4.26%*
2016	\$1,545,000	5.50%	4.04%*	2023	\$2,525,000	5.75%	4.28%*
2017	\$1,830,000	5.50%	4.09%*	2024	\$2,670,000	5.75%	4.35%*

SERIES 2004G (Dedicated Revenues - Benito Juarez Community Academy Project)

<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2011	\$ 260,000	4.00%	3.54%	2017	\$1,220,000	6.00%	3.97%*
2012	\$ 270,000	4.50%	3.70%	2018	\$1,290,000	6.00%	3.99%*
2013	\$ 775,000	4.50%	3.83%	2019	\$1,370,000	6.00%	3.99%*
2014	\$ 815,000	4.75%	3.93%	2020	\$1,450,000	6.00%	4.04%*
2015	\$ 915,000	5.50%	3.99%*	2021	\$1,540,000	6.00%	4.10%*
2016	\$ 965,000	5.50%	4.04%*	2022	\$1,630,000	6.00%	4.16%*

SERIES 2004H (Dedicated Revenues - DePriest Elementary School Project)

<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2011	\$ 665,000	4.00%	3.54%	2018	\$1,630,000	5.50%	4.13%*
2012	\$ 695,000	4.00%	3.70%	2019	\$1,720,000	5.50%	4.13%*
2013	\$ 925,000	4.00%	3.83%	2020	\$1,815,000	5.50%	4.16%*
2014	\$ 960,000	4.75%	3.93%	2021	\$1,915,000	5.50%	4.21%*
2015	\$1,205,000	5.50%	3.99%*	2022	\$2,020,000	5.50%	4.26%*
2016	\$1,275,000	5.50%	4.04%*	2023	\$2,130,000	5.75%	4.28%*
2017	\$1,545,000	5.50%	4.09%*				

*Priced at the stated yield to the December 1, 2014 optional redemption date at a redemption price of 100%.

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 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 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 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 Bonds are further qualified by reference to the information with respect thereto contained in the Indenture for the Bonds. Copies of the Indenture for each series of Bonds 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 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 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 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 for each series of Bonds 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 D – “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 Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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\$56,000,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds

\$25,000,000
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\$12,500,000
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Revenues -Benito Juarez
Community Academy Project)

\$18,500,000
Series 2004H (Dedicated Revenues -
DePriest Elementary School
Project)

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 \$56,000,000 of its Unlimited Tax General Obligation Bonds, Series 2004. The Series 2004 Bonds will be issued in three series: Series 2004F (Dedicated Revenues - Albany Park Academy Project) in the amount of \$25,000,000 (the “Series 2004F Bonds”), Series 2004G (Dedicated Revenues - Benito Juarez Community Academy Project) in the amount of \$12,500,000 (the “Series 2004G Bonds”), and Series 2004H Bonds (Dedicated Revenues - DePriest Elementary School Project) in the amount of \$18,500,000 (the “Series 2004H Bonds”) (collectively, the Series 2004F Bonds, Series 2004G Bonds and Series 2004H Bonds are referred to herein as the “Bonds” or the “Series 2004 Bonds”).

The proceeds of the Series 2004F Bonds will be used to pay for the costs of constructing an elementary school located at 4901-4957 North Sawyer Avenue and 4900 North Kedzie Avenue in Chicago, Illinois and to be known as the Albany Park Academy. The proceeds of the 2004G Bonds will be used to pay for the costs of rehabilitating and expanding a secondary school located at 1440 West 21st Place and 1405 West 21st Street in Chicago, Illinois and known as the Benito Juarez Community Academy. The proceeds of the 2004H Bonds will be used to pay for the costs of constructing an elementary school located at 123-125, 138 and 139 South Parkside Avenue in Chicago, Illinois and to be known as the DePriest Elementary School.

The Bonds of each series will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds of each series will be issued by the Board pursuant to the provisions of the School Code of the State of Illinois, as amended (the “School Code”), the Local Government Debt Reform Act of the State of Illinois, as amended (the “Debt Reform Act”), a resolution adopted by the Board on September 22, 2004 (the “2004 Authorization”) authorizing the issuance of alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act (“Alternate Bonds”), in an amount not to exceed \$965,000,000 in the aggregate and three separate resolutions, one for each series of Bonds, adopted by the Board on November 17, 2004 (each a “Bond Resolution” and, together with the 2004 Authorization, the “Resolutions”).

Each series of Bonds will be issued under a separate Trust Indenture, dated as of December 1, 2004 (each, the “Indenture”), by and between the Board and U.S. Bank National

Association, Chicago, Illinois, as trustee and paying agent (the “Trustee” or “Paying Agent”). The Bonds of each series will be secured by and are payable (i) from the Pledged City Note Revenues (as defined below) for the applicable series, (ii) to the extent that the Pledged City Note Revenues for a series, together with investment earnings thereon, are insufficient to pay the debt service on the Bonds of such series, from the ad valorem taxes levied by the Board, pursuant to the applicable 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 Bonds of such series (the “Pledged Taxes”) and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the applicable Indenture for the applicable series. The Pledged City Note Revenues and other security pledged to the payment of each series of Bonds are not available for the payment of the Bonds of any other series.

The Pledged City Note Revenues for each series of Bonds consist of the following: with respect to the Series 2004F Bonds, payments made by the City of Chicago (the “City”) to the Board under its Tax Increment Allocation Revenue Note (Lawrence/Kedzie Redevelopment Project); with respect to the Series 2004G Bonds, payments made by the City to the Board under its Tax Increment Allocation Revenue Note (Pilsen Redevelopment Project); and with respect to the Series 2004H Bonds, payments made by the City to the Board under its Tax Increment Allocation Revenue Note (Madison/Austin Corridor Redevelopment Project) (each, a “City Note”). For additional information, see “SECURITY FOR THE BONDS – General” and “--The City Notes and the Intergovernmental Agreements” below.

The scheduled payment of principal of and interest on the Bonds of each series when due will be guaranteed under an insurance policy (the “Bond Insurance Policy”) for such series to be issued concurrently with the delivery of the Bonds of such series by MBIA Insurance Corporation (the “Bond Insurer”). For additional information, see “BOND INSURANCE.”

The Board is issuing the Bonds to provide funds for the continued implementation of its Capital Improvement Program. For additional information, see “BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Capital Improvement Program.”

THE BONDS

General

The Bonds of each series 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 Bonds of each series will be issued only as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Bonds of each series will bear interest from the date of original issuance thereof, payable on June 1 and December 1 of each year, commencing June 1, 2005, at the rates set forth on the cover page hereof. Each Bond of each series 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 Bond is paid or duly provided for. Interest on the Bonds of each series will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on each Bond of each series will be payable on each interest payment date to the person in whose name the 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.”

The Bonds of each series 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 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 Bonds will not receive or have the right to receive physical delivery of 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, premium, if any, and interest on the 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 Bonds. So long as DTC or its nominee is the registered owner of the Bonds, references herein to Bondholders or registered owners of such Bonds mean DTC or its nominee and do not mean the beneficial owners of such Bonds.

Additional Bonds Payable From Pledged City Note Revenues

With respect to each series of Bonds, the Board may issue Additional Bonds from time to time under the applicable Indenture for the purpose of refunding any Outstanding Bonds of such series or Additional Bonds theretofore issued under the applicable Indenture and payable from all or any portion of the Pledged City Note Revenues for such Indenture or any other source of payment which may be pledged under the Debt Reform Act. Any Additional Bonds payable from Pledged City Note Revenues for a series of Bonds shall share ratably and equally in the Pledged City Note Revenues with the series of Bonds to which such Pledged City Note Revenues relate; 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.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from the Pledged City Note Revenues for a series of Bonds which are subordinate to the series of Bonds to which such Pledged City Note Revenues relate. Such subordinate obligations will be paid from such Pledged City Note Revenues available to the Board in each year in excess of those required to be deposited in the Pledged City Notes Revenue Account established under the applicable Indenture.

Redemption

Optional Redemption. The Bonds of each series maturing on or after December 1, 2015 are subject to redemption prior to maturity, at the option of the Board, from any available funds, on any date on and after December 1, 2014, in whole or in part, and if in part, in any order of maturity designated by the Board, and if less than an entire maturity, in Authorized Denominations, selected by the Trustee as hereinafter provided, at the redemption price of par plus accrued interest to the date fixed for redemption.

General Redemption Terms. The Board will, at least 60 days prior to any optional redemption date (unless a shorter time period shall be satisfactory to the Trustee), notify the Trustee of such redemption date and of the principal amount and maturity or maturities to be redeemed. If less than all of the Bonds of any series of like maturity are called for optional redemption, the particular Bonds or portions thereof to be redeemed will be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided that (i) the portion of any such Bond of a denomination of more than \$5,000 to be redeemed will be in a principal amount of an Authorized Denomination, and (ii) in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of \$5,000 denomination that is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. So long as DTC or its nominee is the registered owner of the Bonds, the particular Bonds or portions thereof to be redeemed will be selected by DTC in such manner as DTC may determine.

When the Trustee receives notice from the Board of its election or direction to optionally redeem Bonds of any series, the Trustee will give notice, in the name of the Board, of the redemption of such Bonds, which notice will specify the maturities of the Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable 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 will further state that on such 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 thereon will cease to accrue and be payable. The Trustee will mail copies of such notice by first-class mail, postage prepaid, not less than 30 days and not more than 60 days before the date fixed for redemption, to the registered owners of the Bonds to be redeemed at their addresses as shown on the registration books of the Board maintained by the Trustee, as bond registrar; provided that if all Bonds are held in book-entry only form, such notice may be given pursuant to the then-existing agreement with the securities depository for the Bonds. The failure of the Trustee to give notice to a registered owner of any Bond or any defect in such notice will not affect the validity of the redemption of any other Bonds to be redeemed as to which proper notice was given.

Notice having been given in the manner described above, the Bonds of any series or portions thereof so called for redemption will become due and payable on the date fixed for redemption at the applicable redemption price (plus interest accrued and unpaid to such date) and, upon presentation and surrender thereof at the place specified in such notice, such Bonds, or portions thereof, will be paid at the redemption price (plus interest accrued and unpaid to such date). If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed (together with interest to such date) are held by the Trustee so as to be available therefor on said date and if notice of redemption has been given as described above, then, from and after the date fixed for redemption, interest will cease to accrue and become payable. If said moneys are not so available on the date fixed for redemption, interest will continue to accrue until paid at the same rate as if such Bonds had not been called for redemption.

Bond Registration and Transfers

For a description of the procedure to transfer ownership of a Bond of any series while in the book-entry only system, see “-- Book-Entry Only System” below. Subject to the limitations described below, the 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 Bonds of like date and tenor of any Authorized Denomination as the 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 Bond (except in connection with any partial redemption thereof). The Trustee shall not be required to exchange or register the transfer of any Bonds after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture.

Book-Entry Only System

General. The following information 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 Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds of each series, each in the aggregate principal amount of such maturity, 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 asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation (“NSCC”), Fixed Income Clearing Corporation (“FICC”) and Emerging

Markets Clearing Corporation (“EMCC”), (NSCC, FICC and EMCC are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

Redemption proceeds, principal, interest and premium, if any, payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds on the payable date in accordance with their respective holdings shown on DTC's records. Payment 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 redemption proceeds, principal, interest and premium, if any, payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 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 BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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 owner of Bonds insured under the applicable Bond Insurance Policy for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture and granting other approvals, consents and waivers on behalf of the Bondholders with respect to matters that require Bondholder approval, consent or waiver under the Indenture.

Estimated Sources and Uses of Funds

The following table shows the estimated sources and uses of funds in connection with the issuance of the Bonds of each series:

SERIES 2004 BONDS			
<u>Sources:</u>	Series 2004F <u>Bonds</u>	Series 2004G <u>Bonds</u>	Series 2004H <u>Bonds</u>
Bond Proceeds:			
Par Amount	\$25,000,000	\$12,500,000	\$18,500,000
Premium	<u>2,462,905</u>	<u>1,694,331</u>	<u>1,808,990</u>
Total Sources of Funds	<u>\$27,462,905</u>	<u>\$14,194,331</u>	<u>\$20,308,990</u>
<u>Uses:</u>			
Deposit to the Project Fund	\$25,000,000	\$12,500,000	\$18,500,000
Capitalized Interest ¹	1,930,000	1,363,000	1,420,000
Costs of Issuance ²	<u>532,905</u>	<u>331,331</u>	<u>388,990</u>
Total Uses of Funds	<u>\$27,462,905</u>	<u>\$14,194,331</u>	<u>\$20,308,990</u>

⁽¹⁾ Interest on (i) the Series F Bonds is capitalized through June 1, 2006, (ii) the Series G Bonds is capitalized through June 1, 2007, and (iii) the Series H Bonds is capitalized June 1, 2006.

⁽²⁾ Includes bond insurance premium and underwriters' discount.

SECURITY FOR THE BONDS

General

The Bonds of each series will be issued pursuant to the School Code, the Debt Reform Act, the Resolutions and the Indenture for the applicable series. The Bonds of each series 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 Bonds of each series will be payable from and secured by a pledge of (i) all payments of principal of and interest on the City Note related to such series of Bonds, whenever received (the “Pledged City Note Revenues”), which amounts, together with cumulative investment earnings thereon, are intended to provide for the payment of the Bonds of the applicable series and the provision of not less than an additional .10 times Debt Service on such Bonds in such year, (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 applicable Indenture as security for the Bonds (the “Pledged Taxes”), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture for such series of Bonds 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 applicable Indenture. As to the lien on the Pledged City Note Revenues for a series of Bonds, the Bonds of the applicable series will be payable on a parity basis with any Additional Bonds secured by such Pledged City Note Revenues. As described herein, the Pledged Taxes will be collected for the benefit of each series of Bonds only as and to the extent that the Pledged City Note Revenues for such series of Bonds, together with investment earnings thereon, are not available in sufficient amounts to pay the debt service on such Bonds.

Revenues from the Tax Increment Allocation Revenue Note (Lawrence/Kedzie Redevelopment Project), are pledged under the Indenture securing the Series 2004F bonds solely to the payment of the Series 2004F Bonds and any Additional Bonds issued under such Indenture. Revenues from the Tax Increment Allocation Revenue Note (Pilsen Redevelopment Project), are pledged under the Indenture securing the Series 2004G Bonds solely to the payment of the Series 2004G Bonds and any Additional Bonds issued under such Indenture. Revenues from the Tax Increment Allocation Revenue Note (Madison/Austin Corridor Redevelopment Project), are pledged under the Indenture securing the Series 2004H Bonds solely to the payment of the Series 2004H Bonds and any additional Bonds issued under such Indenture. No security for the payment of any series of Bonds is pledged to the payment of any other series of Bonds. No default with respect to any series of Bonds will constitute a default with respect to any other series of Bonds.

The scheduled payment of principal of and interest on the Bonds of each series when due will be guaranteed under the Bond Insurance Policy applicable to such series to be issued concurrently with the delivery of the Bonds of such series by the Bond Insurer. For additional information, see “BOND INSURANCE.”

The City Notes and the Intergovernmental Agreements

Each of (i) the Tax Increment Allocation Revenue Note (Lawrence/Kedzie Redevelopment Project), which relates to the Series 2004F Bonds, (ii) the Tax Increment Allocation Revenue Note (Pilsen Redevelopment Project), which relates to the Series 2004G Bonds, and (iii) the Tax Increment Allocation Revenue Note (Madison/Austin Corridor Redevelopment Project), which relates to the Series 2004H Bonds, of the City of Chicago is a draw-down note in the maximum principal amount of \$25,000,000, \$12,500,000 and \$18,500,000, respectively. Payments of principal of and interest on each City Note are due in accordance with a schedule attached thereto, with each City Note having a final maturity date as set forth on such schedule. Each City Note will be issued by the City pursuant to the terms of a separate Intergovernmental Agreement between the City of Chicago, by and through its Department of Planning and Development, and the Board of Education of the City of Chicago (each, as amended, an “Intergovernmental Agreement”). Each City Note has been structured so that payments thereunder, together with investment earnings thereon, will be sufficient to provide for the payment of the Bonds of the applicable series and not less than an additional .10 times annual debt service on such Bonds in each year. The Board has likewise covenanted in each Indenture to provide, collect and apply the Pledged City Note Revenues with respect to the applicable series of Bonds, together with investment earnings thereon, to the payment of such Bonds and the provision of not less than an additional .10 times debt service. See “Covenants Regarding Pledged City Note Revenues, the City Note and the Intergovernmental Agreement” in APPENDIX B hereto.

Each Intergovernmental Agreement provides that the City will issue the applicable City Note to the Board upon the issuance by the Board of the series of Bonds to which the Intergovernmental Agreement relates. The City is issuing a separate City Note with respect to the Series 2004F Bonds to induce the Board to construct an elementary school to be known as Albany Park Academy at 4901-4957 North Sawyer Avenue and 4900 North Kedzie Avenue in the City. The City is issuing a separate City Note with respect to the Series 2004G Bonds to induce the Board to renovate and expand a secondary school known as Benito Juarez Community Academy at 1440 West 21st Place and 1405 West 21st Street and at certain adjacent property to be acquired by the Board with a portion of the proceeds of the Series 2004G Bonds. The City is issuing a separate City Note with respect to the Series 2004H Bonds to induce the Board to construct an elementary school to be known as DePriest Elementary School at 123-125, 138 and 139 South Parkside Avenue in the City (each, the “Project”). Pursuant to the Intergovernmental Agreement with respect to the Series 2004F Bonds, the City will pledge its tax increment from the Lawrence/Kedzie Redevelopment Project Area to the payment of the City Note for such Bonds. Pursuant to the Intergovernmental Agreement with respect to the Series 2004G Bonds, the City will pledge its tax increment from the Pilsen Redevelopment Project Area to the payment of the City Note for such Bonds. Pursuant to the Intergovernmental Agreement with respect to the Series 2004H Bonds, the City will pledge its tax increment from the Madison/Austin Corridor Redevelopment Project Area to the payment of the City Note for such Bonds (each of such tax increments, the “City Increment”). For each series of Bonds, the City Increment pledged to the payment of the applicable City Note is referred to herein as the “Pledged Increment.” The availability of each City Increment to pay the applicable City Note is subject, under each Intergovernmental Agreement, to (i) rights previously granted by the City with respect to certain other obligations issued or incurred by the City prior to the date hereof,

the payment of which is already secured by a pledge of such City Increment, and (ii) the right of the City to retain City Increment to pay expenses incurred by the City in the administration and operation of the applicable redevelopment area. In addition, the City, with the concurrence of the Board, may subordinate the Board's prior right to receive the Pledged Increment in connection with any applicable City Note to other obligations of the City to be paid from such City Increment, if the City and the Board reasonably agree, based on historical and anticipated City Increment, that payment of the applicable City Note will not be materially adversely affected by such subordination. Further, in addition to any mutually agreed subordination, the City may exclude up to 90% of a City Increment generated from the construction value of a new assisted development project and pledge that City Increment to a developer on a basis superior to that of the Board.

The Board may draw down funds on each City Note to pay the expenditures to be funded by such City Note with respect to the applicable Project, and thereby increase the outstanding principal amount of such City Note from time to time, by filing with the City certificates of expenditure ("Certificates of Expenditure"), supported by documentation establishing that qualifying capital expenditures on the applicable Project were actually incurred by the Board. The City has the right, in its discretion, to require the Board to submit further documentation as the City may require in order to verify that the matters certified are true and correct. The principal amount of each City Note shall not exceed the Board's actual expenditures to construct the Project to which such City Note relates; provided, that in no event shall the City Note for the Project located in the Lawrence/Kedzie Redevelopment Project Area exceed \$25,000,000, the City Note for the Project located in the Madison/Austin Corridor Redevelopment Project Area exceed \$18,500,000 and the City Note for the Project located in the Pilsen Redevelopment Project Area exceed \$12,500,000. The Board reasonably expects to draw down funds in such maximum amounts.

Each City Note is a special, limited obligation of the City, and is payable solely from Pledged Increment with respect to such City Note and shall be a valid claim of the Board, as the registered owner thereof, only against said sources. Each City Note shall not be deemed to constitute an indebtedness or a lien against the general taxing powers or credit of the City, within the meaning of any constitutional or statutory provision. The Board as the registered owner of each City Note will not have the right to compel any exercise of the taxing power of the City, the State of Illinois or any political subdivision thereof to pay the principal of or interest on the City Note. If the Pledged Increment is insufficient to pay the related City Note, such City Note will be a continuing claim against the applicable Pledged Increment until such increment becomes available for payment thereof.

Each Intergovernmental Agreement provides that if the Board should default in its obligations thereunder and shall fail to cure such default within 30 days after receiving a written notice thereof by the City specifying the nature of the default (except that it shall not be deemed to be an event of default if a default is not capable of being cured within 30 days, such cure is commenced within such 30-day period and the Board thereafter diligently and continuously prosecutes such cure until the default has been cured), the City may terminate the applicable Intergovernmental Agreement and suspend payment on the applicable City Note.

The City has reserved the right to prepay any City Note upon 30 days' notice in a prepayment amount that would be sufficient (in accordance with the terms of the City Note) to enable the Board to optionally redeem the Bonds of the series relating to such City Note.

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds of each series. The Pledged Taxes are ad valorem taxes levied pursuant to the Bond Resolutions against all of the taxable property in the School District, without limitation as to rate or amount. However, based on projected receipts of Pledged City Note Revenues with respect to each series of Bonds, together with investment earnings thereon, the Board anticipates that all Pledged Taxes will be abated, which anticipation is supported by three separate reports, one for each series of Bonds, each dated November 18, 2004, and prepared by S.B. Friedman & Co., a feasibility analyst having a national reputation in such matters. To the extent that the Pledged City Note Revenues with respect to any series of Bonds, together with investment earnings thereon, are not available in sufficient amounts, the debt service on the Bonds of such series is payable from the Pledged Taxes. No Pledged City Note Revenues with respect to any series of Bonds may be used for the payment of any other series of Bonds. In the event the Pledged Taxes with respect to a series of Bonds 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 such Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the applicable Indenture. For additional information concerning the levy and collection of the Pledged Taxes, see "THE REAL PROPERTY TAX SYSTEM -- Tax Levy -- Collection."

Payment of Debt Service on the Bonds

The Indenture for each series of Bonds establishes the Debt Service Fund (as defined herein) as a separate fund pledged to the payment of debt service on the Bonds of the series to which such Indenture relates. Each Indenture also establishes three separate accounts in the Debt Service Fund, known as the "Pledged City Note Revenues Account," the "Pledged Taxes Account" and the "Bond Payment Account." For each series, the Pledged City Note Revenues Account consists of the Capitalized Interest Sub-Account, Pledged City Note Revenues Sub-Account and the Board Contribution Sub-Account, and the Bond Payment Account consists of the Interest Sub-Account and the Principal Sub-Account.

On February 2 (or the next business day) of each year, commencing February 2, 2005 (each such date being referred to as a "Deposit Date"), for each series of Bonds, the Trustee shall transfer first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Capitalized Interest Sub-Account, third from the Pledged City Note Revenues Sub-Account and last from the Board Contribution Sub-Account (i) first, to the Interest Sub-Account with respect to such series of Bonds the amount required for the interest payable on the next June 1 or December 1, less the amount then on deposit in the Interest Sub-Account and available for such payment; and (ii) second, to the Principal Sub-Account with respect to such series of Bonds an amount equal to the principal amount of the Outstanding Bonds of such series, if any,

which mature on the next December 1 (including pursuant to a mandatory redemption), less the amount then on deposit in the Principal Sub-Account and available for such payment.

On or before February 15 of each year, commencing February 15, 2005, the Trustee will deliver to the Board a Notice Re: Sufficiency of Pledged City Note Revenues for each series of Bonds evidencing the deposit of sums for the payment of principal of and interest on the Bonds of each series during the current Bond Year and directing the Board to take such necessary actions to abate all or a portion of the Pledged Taxes.

If the Board shall receive such a Notice Re: Sufficiency of Pledged City Note Revenues for a series of Bonds, the Board shall take such actions as are necessary to abate the Pledged Taxes levied to otherwise provide funds for the payment of the Debt Service on such Bonds in amounts equal to amounts on deposit in the Bond Payment Account for such series of Bonds. The Board shall make the deposit required pursuant to each Indenture described above on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

Indenture -- Funds, Accounts and Sub-Accounts

In addition to the Pledged City Note Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture for each series of Bonds are pledged to the payment of the Bonds of such series, and may not be applied to the payment of the Bonds of any other series. See "APPENDIX B - Summary of Certain Provisions of the Indenture."

Bonds Are Obligations of the Board

The Bonds of each series 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 Bonds of each series 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 Bonds of any series.

BOND INSURANCE

Upon the issuance of each series of Bonds, MBIA Insurance Corporation (the "Bond Insurer" or "MBIA") will issue a financial guaranty insurance policy for such series of Bonds (each, a "Bond Insurance Policy") that will guarantee the payment of scheduled principal of and interest on such series of Bonds (referred to herein as the "Insured Bonds").

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. No representation is made by the Board or the Underwriters as to the accuracy or completeness of the information. Reference is made to Appendix D for a specimen of MBIA's policy.

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 Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 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 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 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 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 Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 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 Paying Agent or any owner of a 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 Chicago, Illinois, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the 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 Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

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". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the 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 documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

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

The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

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 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, 2004, June 30, 2004 and September 30, 2004) 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, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 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 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 Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the 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 former 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 Council 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.

Clare Muñana is Vice President of the School Board and a public sector management and international consultant with over 20 years of domestic and international business experience. Ms. Muñana 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 Johns Hopkins University and a Masters of Management from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana is active in several civic and cultural organizations.

Norman R. Bobins is Chairman, President and Chief Executive Officer of LaSalle National Bank. He served as a Trustee of the Public School Teachers’ Pension and Retirement Fund of Chicago and was 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 a Board Certified Family Physician with teaching appointments at the University of Illinois’ Medical College, Rush University Medical School, and the Faculty with Mt. Sinai Family Residence Program affiliated with the Chicago Medical School. He is Regional Medical 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. He has also served as Chairman of the Mayor’s Asian-American Advisory Council, 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.

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. He also serves as a Trustee of the Public School Teachers’ Pension and Retirement Fund of Chicago. 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 has been the recipient of numerous awards from Illinois and New York City and State agencies for excellence in business.

Gene R. Saffold is Managing Director and Co-Head of Public Finance for J.P. Morgan Securities, Inc. He also serves as a Trustee of the Public School Teachers’ Pension and Retirement Fund of Chicago. He has previously held positions at Banc One Capital Markets, Inc., 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.

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 Muñana.....	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. 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 Administrative 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. 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 613 attendance centers consisting of 496 elementary schools, 99 high schools and 18 charter schools serving 434,419 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
2003/2004	330,196	104,223	434,419
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% 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.

Each of the three Projects to be funded by the Series 2004 Bonds is part of the Board's Capital Improvement Program.

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 1,395 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,085 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 \$3.8 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 once again. In July 2001, Mayor Daley appointed a new management team consisting of experienced managers who have guided CPS over the past several 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 42.9 percent of elementary school students are reading at or above national norms, while 47.2 percent are performing at or above national norms in math. Overall, reading scores are up 16.4 percentage points and math 16.4 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.

Renaissance 2010 Program. Renaissance 2010 is a plan, recently announced by Mayor Daley, to improve the educational choices and opportunities for students throughout Chicago. Under the plan, at least 100 new schools will be created over the next six years which will be a combination of Chicago Public School-run, contract and charter schools. These new schools will help to address the under-utilization of Chicago Public School buildings, lack of high school options, over-crowding and low performance. Renaissance 2010 is an overarching plan that consists of multiple strategies. One strategy is to focus on geographic concentrations of under-utilized buildings and/or low performing schools with a comprehensive approach to meeting the needs of that geography and its neighborhoods. Selection of schools will be heavily informed by the community who will evaluate proposals and make recommendations to the Board. All schools will be accountable via Performance Agreements that outline expectations for student achievement, on-going community and parent involvement and school management.

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 seven 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 six 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 four percent (4%) for each fiscal year through 2007. The 4% increase for fiscal year 2007 may be adjusted upward in such fiscal

year depending on the total amount of general fund revenue received by the Board in that fiscal year.

The remaining six 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.

The Board believes that, based on unaudited information for the fiscal year ended June 30, 2004, the General Operating Fund revenues, expenditures, other financing sources and changes in fund balances for the fiscal year ended June 30, 2004, are consistent with the budget for such fiscal year.

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 \$30.3 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				Estimated 2004 ⁽⁴⁾	Budget 2005
	2000	2001	2002	2003		
Revenues:						
Property Taxes	\$1,352,374	\$1,379,010	\$1,429,307	\$1,495,382	\$1,531,700	\$1,582,000
Replacement Taxes	89,142	71,230	57,193	48,852	60,900	72,800
State Aid	1,247,174	1,275,707	1,336,586	1,307,229	1,354,300	1,442,000
Federal Aid	497,673	552,311	539,573	602,677	686,900	832,300
Investment Income	36,347	42,501	16,505	20,803	16,440	16,300
Other	<u>65,515</u>	<u>78,107</u>	<u>66,917</u>	<u>76,609</u>	<u>76,560</u>	<u>72,300</u>
Total Revenues	<u>\$3,288,225</u>	<u>\$3,398,866</u>	<u>\$3,446,081</u>	<u>\$3,551,552</u>	<u>\$3,726,800</u>	<u>\$4,017,700</u>
Expenditures						
Instruction	\$1,888,879	\$1,995,423	\$2,152,958	\$2,214,781	\$2,376,951	\$2,460,000
Pupil Services	301,714	303,071	311,628	320,380	327,653	349,000
Support Services	684,365	730,187	750,111	764,002	765,895	954,000
Food Services	161,614	166,365	160,063	170,238	180,929	187,000
Community Services	73,792	73,718	47,523	47,253	49,933	32,000
Capital Outlay		394				
Teachers' Pension	65,045	65,045	65,045	65,045	65,045	65,000
Other	<u>9,093</u>	<u>18,916</u>	<u>6,558</u>	<u>13,742</u>	<u>8,494</u>	<u>1,000</u>
Total Expenditures	<u>\$3,184,502</u>	<u>\$3,353,119</u>	<u>\$3,493,886</u>	<u>\$3,595,441</u>	<u>\$3,774,900</u>	<u>\$4,048,000</u>
Revenues in Excess of (less than)		\$ 45,747				
Expenditures	\$ 103,723		\$ (47,805)	\$ (43,889)	\$ (48,100)	\$ (30,300)
Other Financing Sources	<u>11,436</u>	<u>(46,797)</u> ⁽²⁾	<u>1,527</u>	<u>7,711</u>	<u>—</u>	<u>—</u>
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures	\$ 115,159	\$ (1,050)	\$ (46,278)	\$ (36,178)	\$ (48,100)	(\$30,300)
Fund Balance, Beginning of Period	449,793	564,952	411,412	365,134	328,956	280,856
Impact of Adopting GASB No. 33 ⁽³⁾	<u>—</u>	<u>(152,490)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund Balance, End of Period	\$ 564,952	\$ 411,412	\$ 365,134	\$ 328,956	\$ 280,856	\$ 250,556
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	\$ 102,623	\$ 149,675	\$ 118,726	\$ 78,879	\$ 79,219	\$ 79,219
Specific Purposes	<u>69,272</u>	<u>60,217</u>	<u>36,525</u>	<u>41,718</u>	<u>30,300</u>	<u>—</u>
Total Reserved Fund Balance	<u>\$ 171,895</u>	<u>\$ 209,892</u>	<u>\$ 155,251</u>	<u>\$ 120,597</u>	<u>\$ 109,519</u>	<u>\$ 79,219</u>
Unreserved:						
Designated to Provide Operating Capital	\$ 295,900	\$ —	\$ 201,500	\$ 161,233	\$ 171,337	\$ 171,337
Undesignated	<u>97,157</u>	<u>201,520</u>	<u>8,383</u>	<u>47,126</u>	<u>—</u>	<u>—</u>
Total Unreserved	<u>\$ 393,057</u>	<u>\$ 201,520</u>	<u>\$ 209,883</u>	<u>\$ 208,359</u>	<u>\$ 171,337</u>	<u>\$ 171,337</u>
Total Fund Balance	\$ 564,952	\$ 411,412	\$ 365,134	\$ 328,956	\$ 280,856	\$ 250,556

(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, Series 2004C Bonds, Series 2004D Bonds and Series 2004E Bonds and the 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) Audited numbers are not yet available for Fiscal Year 2004. Total Revenues and expenditures are in accordance with the Fiscal Year 2004 Estimate as published by Budget. The approved Fiscal Year 2004 Budget re-appropriated \$25.0 million of ending fiscal year 2003 fund balance as reserved for specific purposes.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Series 2004F, Series 2004G and Series 2004H Bonds, the Board has approximately \$3.266 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt consists of approximately \$496.4 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. The Board also has approximately \$110.6 million aggregate principal amount outstanding from a Lease Agreement dated September 1, 1999 with the Public Building Commission of Chicago (the "Commission Obligations").

Board's Debt Service Schedule

Calendar Year	Prior Alternate Bonds			Series 2004F Bonds	Series 2004G Bonds	Series 2004H Bonds	Total Annual Debt Service
	Bonds ⁽¹⁾⁽²⁾⁽³⁾	Commission Obligations ⁽¹⁾	PBC Leases ⁽²⁾				
2004	\$134,267,568	\$82,272,438	\$ 51,863,450	—	—	—	\$268,403,456
2005	161,266,408	116,578,250	51,572,450	—	—	—	329,417,108
2006	161,765,970	—	51,990,050	\$667,181	\$354,769	\$490,675	215,268,645
2007	166,538,198	—	52,037,000	1,334,363	354,769	981,350	221,245,680
2008	168,788,778	—	52,096,838	1,334,363	709,538	981,350	223,910,867
2009	243,856,503	—	52,103,825	1,334,363	709,538	981,350	298,985,579
2010	247,381,530	—	52,163,338	1,334,363	709,538	981,350	302,570,119
2011	260,440,810	—	52,232,025	2,224,363	969,538	1,646,350	317,513,086
2012	241,000,524	—	52,318,625	2,218,763	969,138	1,649,750	298,156,800
2013	262,181,287	—	52,359,513	2,421,963	1,461,988	1,851,950	320,276,701
2014	251,429,530	—	52,430,550	2,425,563	1,467,113	1,849,950	309,602,706
2015	261,530,725	—	52,467,613	2,623,088	1,528,400	2,049,350	320,199,176
2016	252,626,654	—	52,519,550	2,622,513	1,528,075	2,053,075	311,349,867
2017	249,319,336	—	52,600,125	2,822,538	1,730,000	2,252,950	308,724,949
2018	254,687,613	—	52,664,600	2,821,888	1,726,800	2,252,975	314,153,876
2019	279,481,726	—	30,635,500	2,825,738	1,729,400	2,253,325	315,925,689
2020	309,365,390	—	—	2,823,538	1,727,200	2,253,725	316,169,853
2021	310,694,890	—	—	2,825,288	1,730,200	2,253,900	317,504,278
2022	281,151,832	—	—	2,825,438	1,727,800	2,253,575	287,958,645
2023	305,109,106	—	—	2,823,713	—	2,252,475	310,185,294
2024	305,098,221	—	—	2,823,525	—	—	307,921,746
2025	305,313,654	—	—	—	—	—	305,313,654
2026	305,296,882	—	—	—	—	—	305,296,882
2027	275,080,389	—	—	—	—	—	275,080,389
2028	367,037,498	—	—	—	—	—	367,037,498
2029	306,254,715	—	—	—	—	—	306,254,715
2030	306,272,858	—	—	—	—	—	306,272,858
2031	306,271,726	—	—	—	—	—	306,271,726
2032	75,765,422	—	—	—	—	—	75,765,422
2033	43,858,795	—	—	—	—	—	43,858,795
2034	28,246,267	—	—	—	—	—	28,246,267
2035	13,142,838	—	—	—	—	—	13,142,838
	<u>\$7,440,523,643</u>	<u>\$198,850,688</u>	<u>\$814,055,052</u>	<u>\$43,132,552</u>	<u>\$21,133,804</u>	<u>\$31,289,425</u>	<u>\$8,548,985,164</u>

- (1) At June 30, 2003, the Board held on deposit \$326,268,402 for Prior Alternate Bond debt service, of which \$173,083,469 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.
- (3) Interest on \$303,000,000 of variable rate Bonds Series 2000B, C, D is calculated at an assumed rate of 6% per annum; interest on \$183,775,000 of auction rates 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 approximately \$72,575,000 of auction rates 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, Series 2003D-3 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; interest on \$298,075,000 of auction rates Series 2004B Bonds is calculated at the swap rate of 3.5439% based on a 360-day year consisting of twelve 30-day months; interest on \$222,080,000 of the variable rate Bonds Series 2004C, D and E is calculated at an assumed rate of 4.5% per annum.

**Board's Overlapping Debt Schedule
as of December 2, 2004
(Dollars in Thousands)**

	Amount
Direct Debt	
Series 2004F Bonds	\$ 25,000
Series 2004G Bonds.....	12,500
Series 2004H Bonds.....	18,500
Total Prior Bonds	3,266,168
Commission Obligations (principal component)	110,650
Leases Securing PBC Bonds (principal component)	<u>476,044</u>
Total Direct Debt	<u>\$ 3,908,862</u>

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt ⁽¹⁾			
City	\$5,442,902	100.00	\$5,442,902
School Finance Authority	328,920	100.00	328,920
Community College District	92,070	100.00	92,070
Chicago Park District ⁽²⁾	543,050	100.00	543,050
Water Reclamation District	1,336,739	45.15	603,538
Cook County	3,145,815	44.19	1,390,135
Forest Preserve District	137,355	44.19	<u>60,697</u>
Total Overlapping Debt			<u>\$8,461,311</u>
Total Direct and Overlapping Debt			<u>\$12,370,173</u>

Selected Debt Statistics

Population (2000) ⁽⁴⁾	2,896,016
Equalized Assessed Valuation (2003) ^{(3) (5)}	\$ 53,168,632
Estimated Fair Market Value (2003) ⁽⁶⁾	\$263,482,258

	<u>Per Capita⁽⁷⁾</u>	<u>EAV</u>	<u>FMV</u>
Direct Debt	\$1,349.74	7.35%	1.484%
Total Direct and Overlapping Debt	\$4,271.45	23.27%	4.695%

(1) 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	\$92,070,000
Chicago Park District	26,250,000

(2) 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.

(3) Cook County Only

(4) Source: United States Census Bureau.

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

(6) Source: The Civic Federation.

(7) 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	<u>(49,942)</u>	<u>(37,921)</u>	<u>(38,379)</u>	<u>(37,965)</u>	<u>(37,486)</u>
Net funded debt	<u>\$1,027,202</u>	<u>\$ 975,878</u>	<u>\$ 924,104</u>	<u>\$ 873,201</u>	<u>\$ 822,356</u>
Unfunded Debt:					
Contracts, leases, purchase orders and outstanding judgments.....	138,372	136,682	185,554	146,367	108,828
Asbestos abatement loans.....	<u>16,919</u>	<u>15,438</u>	<u>13,253</u>	<u>11,833</u>	<u>10,413</u>
Net unfunded debt	155,291	152,120	198,807	158,200	119,241
Total debt	<u>\$ 1,182,493</u>	<u>\$ 1,127,998</u>	<u>\$ 1,122,911</u>	<u>\$ 1,031,401</u>	<u>\$ 941,597</u>
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 Alternate Bonds issued prior to the Bonds (in the aggregate outstanding principal amount of \$3.497 billion) or the Bonds, which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Interest Rate Swap Agreements

The Board 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. In connection with the issuance of the Series 2004B Bonds, the Board entered into two swap agreements (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 BMA/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 entered 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 Interest Rate Swap Agreements.

The swaps represented by the Series 2003B Swap Agreements and 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 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 under certain conditions. 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.

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, 2003, 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 92%.

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 2005 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 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 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 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 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 for each series of Bonds are subject to the provisions of the Investment Policy as in effect, from time to time.

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, \$328,920,000 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 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 several 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% for certain residential, commercial and industrial properties to 36% and 38%, 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. On March 26, 2004, the Court denied the petition for leave to appeal. The property owner in this matter then filed a petition for writ of certiorari with the United States Supreme Court, which was denied on October 4, 2004, in a case known by Docket No. 03-1716.

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% 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, 2003, see "- Property Tax Information - Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1993-2003."

Exemptions. See “Recent Amendments to the Property Tax Code” below for a description of recent changes to certain property tax exemptions, some of which are described under this caption. 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.

Recent Amendments to the Property Tax Code

Illinois Public Act 093-0715, containing a number of amendments to the Property Tax Code (the “**2004 Amendments**”), was enacted into law effective July 12, 2004. The 2004 Amendments change several existing property tax exemptions as follows:

- The annual General Homestead Exemption was increased from a maximum of \$4,500 to \$5,000 in Cook County.
- The additional annual exemption for senior citizens was increased from \$2,500 to \$3,000 in Cook County.
- The Homestead Improvement Exemption was increased from \$45,000 in home improvements to \$75,000.

- The maximum annual income for eligibility for the freeze of property tax assessments for homeowners who are 65 and older under the Senior Citizens Tax Freeze Homestead Exemption was increased from \$40,000 to \$45,000.
- The Longtime Homeowner Exemption is capped at \$20,000 in equalized assessed value per levy year.

In addition, the 2004 Amendments created an optional “Alternative General Homestead Exemption” which could be adopted by the various counties at the discretion of each respective county. On July 13, 2004 the Cook County Board adopted an enabling ordinance implementing the Alternative General Homestead Exemption.

The Alternative General Homestead Exemption limits future increases in the Equalized Assessed Valuation of residential property to an average annual increase of not more than 7% per year. The 2004 Amendments provide that the amount of this exemption for each applicable year is the Equalized Assessed Valuation of the homestead property for the current tax year minus the adjusted homestead value. The 2004 Amendments define “adjusted homestead value” as the lesser of (i) the property’s base homestead value increased by 7% for each tax year after 2002 through and including the current tax year or (ii) the property’s Equalized Assessed Valuation for the current tax year minus \$4,500 in 2003 and \$5,000 in 2004 and thereafter. However, the total exemptions claimed by a homeowner under the Alternative General Homestead Exemption cannot exceed \$20,000 for any taxable year. Additionally, the total exemption is limited to \$4,500 in 2003 and \$5,000 in 2004 and thereafter for homeowners who are also entitled to the Senior Citizens Tax Freeze Homestead Exemption.

The Alternative General Homestead Exemption is temporary and is only available for three years following the year a homeowner’s property is assessed. If the general assessment year for the property is 2003, the Alternative General Homestead Exemption applies for the assessment years 2003, 2004 and 2005. If the general assessment year for the property is 2004, the Alternative General Homestead Exemption applies for the assessment years 2004, 2005 and 2006. Lastly, if the general assessment year for the property is 2005, the Alternative General Homestead Exemption applies for the assessment years 2005, 2006 and 2007. For the first taxable year only after the Alternative General Homestead Exemption no longer applies, the 2004 Amendments create an additional general homestead exemption of \$5,000 for owners (i) who have not been granted a Senior Citizens Tax Freeze Homestead Exemption for the taxable year, (ii) whose qualified property has an Assessed Valuation that has increased by more than 20% over the previous Assessed Valuation of the property, and (iii) who have a household income of \$30,000 or less. After the Alternative General Homestead Exemption is phased out, homeowners are entitled to the General Homestead Exemption and other exemptions described above.

The Board expects that the primary impact of the Alternative General Homestead Exemption will be to grant some tax relief to residential property owners who experience a large increase in the assessed value of their residences in the applicable years by effectively shifting the tax burden to residential properties that have not had such large increases in assessed valuation and to industrial, commercial and other non-residential properties.

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 include 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; however, the second installment penalty date for tax year 2003 is anticipated to be on or about November 15, 2004. 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% 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% 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 Bonds are being issued as Alternate Bonds. The extension and collection of the Pledged Taxes, to the extent received, for the payment of debt service on the 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 1993-2003

(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				Total Estimated Fair Cash Value
2003	\$12,677,199	\$2,233,572	\$10,303,731	\$487,681	\$25,702,183	2.4598	\$53,168,632	\$263,482,258	20.18 %
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)

Levy Year⁽²⁾	Extension	First Year Collections		Cumulative Collections⁽¹⁾	
		Amount	Percent	Amount	Percent
2003	\$1,670,337	\$ 757,156	45.3 %	\$ 757,156	45.3 %
2002	1,614,473	1,548,369	95.9	1,581,007	97.9
2001	1,571,962	1,519,630	96.7	1,563,695	99.5
2000	1,503,488	1,446,847	96.2	1,485,545	98.8
1999	1,451,206	1,408,124	97.0	1,432,538	98.7
1998	1,416,346	1,317,872	93.0	1,386,191	97.9
1997	1,362,211	1,304,701	95.8	1,331,631	97.8
1996	1,331,437	1,293,278	97.1	1,286,198	96.6
1995	1,291,784	1,240,528	96.0	1,242,065	96.2
1994	1,253,800	1,189,147	94.8	1,198,456	95.6

(1) Tax receivables is net of Estimated Allowances for Uncollectible taxes (the "Allowance"). The Allowance for the calendar year 2003 levy is 3.5% of the levy.

(2) The 2003 tax extensions year reflects collections through June 30, 2004

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	2003
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	\$2.258
Special Education	0.039	0.038	0.000	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	0.000
Agricultural Science	0.003	0.008	0.000	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	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	0.000
Textbook	0.107	0.105	0.000	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	0.219
Teachers' Pension	0.254	0.248	0.000	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	0.565
Bond Redemption & Interest	0.013	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals.....	<u>0.173</u>	<u>0.177</u>	<u>0.173</u>	<u>0.171</u>	<u>0.099</u>	<u>0.155</u>	<u>0.149</u>	<u>0.130</u>	<u>0.125</u>	<u>0.116</u>	<u>0.100</u>
Board Subtotal	<u>\$4.323</u>	<u>\$4.167</u>	<u>\$4.251</u>	<u>\$4.327</u>	<u>\$4.084</u>	<u>\$4.172</u>	<u>\$4.104</u>	<u>\$3.714</u>	<u>\$3.744</u>	<u>\$3.562</u>	<u>\$3.142</u>
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	1.380
Community College District	0.381	0.372	0.376	0.377	0.356	0.354	0.347	0.311	0.307	0.280	0.246
School Finance Authority	0.150	0.265	0.296	0.291	0.270	0.268	0.255	0.223	0.223	0.177	0.151
Chicago Park District.....	0.778	0.741	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545	0.464
Water Reclamation District.....	0.471	0.495	0.495	0.492	0.451	0.444	0.419	0.415	0.401	0.371	0.361
Cook County	0.971	0.993	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690	0.630
Cook County Forest Preserve	<u>0.072</u>	<u>0.073</u>	<u>0.072</u>	<u>0.074</u>	<u>0.074</u>	<u>0.072</u>	<u>0.070</u>	<u>0.069</u>	<u>0.067</u>	<u>0.061</u>	<u>0.059</u>
Other Unit Subtotal.....	<u>\$5.051</u>	<u>\$5.097</u>	<u>\$5.094</u>	<u>\$5.126</u>	<u>\$4.759</u>	<u>\$4.700</u>	<u>\$4.432</u>	<u>\$4.074</u>	<u>\$3.948</u>	<u>\$3.715</u>	<u>\$3.291</u>
TOTAL.....	\$9.374	\$9.264	\$9.345	\$9.453	\$8.843	\$8.872	\$8.536	\$7.788	\$7.692	\$7.277	\$6.433

(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 EXEMPTION

General

The Internal Revenue Code of 1986, as amended (the “Code”), contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Bond proceeds and the facilities financed therewith, and certain other matters. With respect to each series of Bonds, the Board has covenanted to comply with all requirements of the Code that must be satisfied in order for the interest on such Bonds to be excludible from gross income. Failure to comply with certain of such covenants could cause interest on such Bonds to become includible in gross income retroactive to the date of issuance of such Bonds.

Subject to the condition that the Board comply with the above-referenced covenants, under present law, in the opinion of Bond Counsel the Bonds are not “private activity bonds” under Section 141 of the Code, and interest on the Bonds will not be includible in the gross income of the owners thereof for Federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Bonds will be taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon a certificate of the Board with respect to certain material facts solely within the Board’s knowledge relating to the property financed with the proceeds of the Bonds and the application of the proceeds of the Bonds.

The Code includes provisions for an alternative minimum tax (“AMT”) for corporations. The AMT is levied in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporation’s taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S corporations, regulated investment companies, real estate investment trusts, REMICs or FASITs) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment items and the alternative tax net operating loss deduction). “Adjusted current earnings” would include all tax-exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax may be levied on the “effectively connected earnings and profits” of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

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

Interest on the Bonds is not exempt from present State of Illinois income taxes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective. The opinions of Bond Counsel express the professional judgment of Bond Counsel regarding the legal issues expressly addressed therein. By rendering its legal opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction. Nor does the rendering of the opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Market Discount

If a Bond is purchased at any time for a price that is less than the Bond's Offering Price plus accrued original issue discount, if any, the purchaser may be treated as having purchased the Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of the market discount rules with respect to the Bonds.

Bond Premium

An amount equal to the excess of the purchase price of a Bond over the principal amount payable at maturity of such Bond constitutes amortizable bond premium that may not be deducted for Federal income tax purposes. For purposes of determining gain or loss on the sale or other disposition of such Bond, the tax basis of each Bond is decreased by the amount of the bond premium that has been amortized. Bond premium is amortized by offsetting the interest on the Bond allocable to an accrual period with the bond premium allocable to the accrual period. The bond premium allocable to an accrual period is the excess of the interest on the Bond allocable to the accrual period over the product of the owner's adjusted acquisition price at the beginning of the accrual period and the owner's yield (determined on the basis of a constant yield over the term of the Bond). If the bond premium allocable to an accrual period exceeds the interest on the Bond allocable to the accrual period, the excess is a nondeductible loss for Federal income tax purposes that reduces the owner's basis in such Bond.

Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the Federal, state and local consequences of owning such 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 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 Bonds of any series should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

RATINGS

Each series of Bonds has 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 Bond Insurance Policy for each such series of Bonds to be issued by the Bond Insurer.

Each series of Bonds has 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 Bonds of a series 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 Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the 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

George K. Baum & Company, as Representative of the Underwriters identified on the cover page of this Official Statement, has agreed to purchase: the Series 2004F Bonds at an aggregate purchase price of \$27,242,505.30 (which represents par, plus original issue premium of \$2,462,905.30, less an Underwriters’ discount of \$220,400.00); the Series 2004G Bonds at an aggregate purchase price of \$14,084,168.00 (which represents par, plus original issue premium

of \$1,694,330.50, less an Underwriters' discount of \$110,162.50); the Series 2004H Bonds at an aggregate purchase price of \$20,146,083.95 (which represents par, plus original issue premium of \$1,808,990.20, less an Underwriters' discount of \$162,906.25). The Bonds will be offered to the public at the price of par, as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds of each series, if they are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds of any series to the public.

The obligation of the Underwriters to accept delivery of and pay for the Bonds of each series is subject to various conditions set forth in the Contract of Purchase relating to such 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 LEGAL MATTERS

Issuance of the Bonds of each series is subject to the issuance of the approving legal opinion of Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, as Bond Counsel. The proposed form of such opinion is included herein as APPENDIX C. Certain legal matters will be passed upon for the Board by Ruth M. Moscovitch, General Counsel, and by Jenner & Block LLP, Chicago, Illinois; and for the Underwriters by their Counsel, Piper Rudnick LLP, 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 to the Underwriters of the 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 Bonds of any series, or in any way contesting the validity or enforceability of the Bonds of any series.

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 the 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.

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, 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 (each, the "Undertaking") for each series of Bonds for the benefit of the Beneficial Owners of each such series of 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, as amended.

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 for the applicable series of Bonds, and

Beneficial Owners of each series of Bonds are limited to the remedies described in the applicable 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 in each Undertaking 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 Undertaking for each series of Bonds requires that Annual Financial Information, excluding the Audited Financial Statements, be provided to each NRMSIR and to the SID, if any, on or prior to 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 Undertaking for each series of Bonds requires that 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 in the Undertaking for each series of Bonds that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”) and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the related series of Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. For a series of Bonds, 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

Bonds; (vii) modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Bonds; and (xi) rating changes.

Consequences of Failure to Provide Information

The Board agrees in each Undertaking to 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 Resolutions or the Indenture with respect to the related series of Bonds, 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 relevant series of Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the 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 applicable series of 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 such series of 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 applicable series of Bonds under the Indenture for such series of Bonds. 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 each 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

APPENDIX A

Audited Financial Statements for Fiscal Year 2003

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INDEPENDENT AUDITORS' REPORT

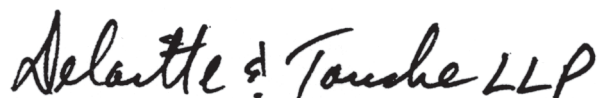
The Board of Education of the City of Chicago:

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.



December 12, 2003

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis (MD&A)
June 30, 2003

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	<u>\$ 6,764</u>	<u>\$ 6,473</u>	<u>\$ 291</u>	4.5
Current liabilities	\$ 830	\$ 765	\$ 65	8.5
Long-term liabilities	4,930	4,548	382	8.4
Total Liabilities	<u>\$ 5,760</u>	<u>\$ 5,313</u>	<u>\$ 447</u>	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	<u>67</u>	<u>176</u>	<u>(109)</u>	(61.9)
Total Net Assets	<u>\$ 1,004</u>	<u>\$ 1,160</u>	<u>\$ (156)</u>	(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			
	<u>2003</u>	<u>2002</u>	<u>Difference</u>	<u>% Change</u>
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	<u>\$ 931</u>	<u>\$ 859</u>	<u>\$ 72</u>	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	<u>\$ 3,000</u>	<u>\$ 2,965</u>	<u>\$ 35</u>	1.2
Total Revenues	<u>\$ 3,931</u>	<u>\$ 3,824</u>	<u>\$ 107</u>	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	<u>\$ 4,087</u>	<u>\$ 4,020</u>	<u>\$ 67</u>	1.7
Change in Net Assets	<u>\$ (156)</u>	<u>\$ (196)</u>	<u>\$ 40</u>	

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

<i>(Millions of dollars)</i>	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>2003 Percent of Total</u>	<u>Increase (Decrease) from 2002</u>	<u>Percent Increase (Decrease) from 2002</u>
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	<u>94</u>	<u>90</u>	<u>2.2</u>	<u>4</u>	<u>4.4</u>
Subtotal	\$ 3,874	\$ 3,775	92.4%	\$ 99	2.6
Other financing sources	<u>317</u>	<u>233</u>	<u>7.6</u>	<u>84</u>	<u>36.1</u>
Total	<u>\$ 4,191</u>	<u>\$ 4,008</u>	<u>100.0%</u>	<u>\$ 183</u>	<u>4.5</u>

- **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

<u>(Millions of dollars)</u>	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>2003 Percent of Total</u>	<u>Increase (Decrease) from 2002</u>	<u>Percent Increase (Decrease) from 2002</u>
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	<u>\$ 4,293</u>	<u>\$ 4,093</u>	<u>100.0%</u>	<u>\$ 200</u>	<u>4.9</u>

- **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)

	<u>Governmental Activities</u>
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	<u>3,882,407</u>
Total Assets	<u><u>\$ 6,764,790</u></u>
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	<u>258,089</u>
Total Liabilities	<u><u>\$ 5,760,372</u></u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 392,041
Restricted for:	
Debt service	457,106
Specific purposes	88,207
Unrestricted	<u>67,064</u>
Total Net Assets	<u><u>\$ 1,004,418</u></u>

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)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
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	<u>\$ 1,902,488</u>	<u>\$ 620,564</u>	<u>\$ 472,062</u>	<u>\$ 2,995,114</u>
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	<u>\$ 1,573,532</u>	<u>\$ 229,807</u>	<u>\$ 34,351</u>	<u>\$ 1,837,690</u>
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	<u>\$ 328,956</u>	<u>\$ 390,757</u>	<u>\$ 437,711</u>	<u>\$ 1,157,424</u>
Total Liabilities and Equity	<u>\$ 1,902,488</u>	<u>\$ 620,564</u>	<u>\$ 472,062</u>	<u>\$ 2,995,114</u>

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	<u>(1,748,136)</u>	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	<u>(289,878)</u>	
		(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	<u>185,852</u>	
Net Assets	<u>\$ 1,004,418</u>	

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	<u>\$ 3,551,552</u>	<u>\$ 92,671</u>	<u>\$ 229,838</u>	<u>\$ 3,874,061</u>	<u>\$ 3,774,500</u>
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	<u>\$ 3,595,441</u>	<u>\$ 443,873</u>	<u>\$ 253,819</u>	<u>\$ 4,293,133</u>	<u>\$ 4,093,398</u>
REVENUES LESS THAN EXPENDITURES ...	<u>\$ (43,889)</u>	<u>\$ (351,202)</u>	<u>\$ (23,981)</u>	<u>\$ (419,072)</u>	<u>\$ (318,898)</u>
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)	<u>\$ 7,711</u>	<u>\$ 307,559</u>	<u>\$ 2,168</u>	<u>\$ 317,438</u>	<u>\$ 232,684</u>
REVENUES AND OTHER FINANCING SOURCES (USES) LESS THAN					
EXPENDITURES	<u>\$ (36,178)</u>	<u>\$ (43,643)</u>	<u>\$ (21,813)</u>	<u>\$ (101,634)</u>	<u>\$ (86,214)</u>
Fund Balances, beginning of period	365,134	434,400	459,524	1,259,058	1,345,272
Fund Balances, end of period	<u>\$ 328,956</u>	<u>\$ 390,757</u>	<u>\$ 437,711</u>	<u>\$ 1,157,424</u>	<u>\$ 1,259,058</u>

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	<u>(134,884)</u> 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	<u>(145,086)</u>
Change in Net Assets	<u>\$ (155,771)</u>

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)

	<u>Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>Fiscal Year Actual</u>	<u>Variance</u>
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	<u>\$ 3,623,118</u>	<u>\$ —</u>	<u>\$ 3,623,118</u>	<u>\$ 3,551,552</u>	<u>\$ (71,566)</u>
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	<u>\$ 3,666,788</u>	<u>\$ —</u>	<u>\$ 3,666,788</u>	<u>\$ 3,595,441</u>	<u>\$ 71,347</u>
REVENUES LESS THAN EXPENDITURES	<u>\$ (43,670)</u>	<u>\$ —</u>	<u>\$ (43,670)</u>	<u>\$ (43,889)</u>	<u>\$ (219)</u>
OTHER FINANCING SOURCES					
Transfers in	7,711	—	7,711	7,711	—
TOTAL OTHER FINANCING SOURCES					
REVENUES AND OTHER FINANCING					
SOURCES LESS THAN EXPENDITURES	<u>\$ (35,959)</u>	<u>\$ —</u>	<u>\$ (35,959)</u>	<u>\$ (36,178)</u>	<u>\$ (219)</u>
Fund Balances, beginning of period	365,134	—	365,134	365,134	—
Fund Balances, end of period	<u>\$ 329,175</u>	<u>\$ —</u>	<u>\$ 329,175</u>	<u>\$ 328,956</u>	<u>\$ (219)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

<u>Assets</u>	<u>Years</u>
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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

		Tax Rates	
	Maximum	Extended Per	
	2003	\$100 of EAV	
	<u>Legal Limit</u>	<u>2003</u>	<u>2002</u>
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
		<u>\$ 3.562</u>	<u>\$ 3.744</u>

- 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):

	Fund Financial Statements	Government- Wide Financial Statements
Revenues:		
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	<u>\$ 1,469,567</u>	<u>\$ 1,491,566</u>

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.

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

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):

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

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):

	<u>Fund Financial Statements</u>	<u>Government- Wide Financial Statements</u>
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	<u>20,768</u>	<u>20,768</u>
Total Receivables	\$ 1,401,280	\$ 1,401,280
Less: Allowance for uncollectibles	<u>(44,204)</u>	<u>(44,204)</u>
Total Receivables, net	<u>\$ 1,357,076</u>	<u>\$ 1,357,076</u>

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	<u>185,852</u>
Total Deferred Revenue	<u>\$ 1,037,462</u>

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	<u>73,357</u>	<u>264,615</u>	<u>(73,357)</u>	<u>264,615</u>
Total capital assets not being depreciated	<u>\$ 249,784</u>	<u>\$ 289,407</u>	<u>\$ (76,757)</u>	<u>\$ 462,434</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 4,923,123	\$ 197,070	\$ (18,381)	\$ 5,101,812
Equipment and administrative software	<u>53,559</u>	<u>14,142</u>	<u>(1,404)</u>	<u>66,297</u>
Total capital assets being depreciated ...	<u>\$ 4,976,682</u>	<u>\$ 211,212</u>	<u>\$ (19,785)</u>	<u>\$ 5,168,109</u>
Total Capital Assets	<u>\$ 5,226,466</u>	<u>\$ 500,619</u>	<u>\$ (96,542)</u>	<u>\$ 5,630,543</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (1,602,944)	\$ (135,126)	\$ 16,890	\$ (1,721,180)
Equipment and administrative software	<u>(27,807)</u>	<u>242</u>	<u>609</u>	<u>(26,956)</u>
Total accumulated depreciation	<u>\$ (1,630,751)</u>	<u>\$ (134,884)</u>	<u>\$ 17,499</u>	<u>\$ (1,748,136)</u>
Capital Assets, net of depreciation	<u><u>\$ 3,595,715</u></u>	<u><u>\$ 365,735</u></u>	<u><u>\$ (79,043)</u></u>	<u><u>\$ 3,882,407</u></u>

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	<u>6,614</u>
Total Depreciation	<u><u>\$ 134,884</u></u>

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	<u>\$ 65,043</u>
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	<u>(100,025)</u>
Total — Due to other Funds	<u>\$ (125,996)</u>
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	<u>(613)</u>
Total — Due from other Funds	<u>\$ 60,953</u>

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

NOTE 8. LONG-TERM DEBT (continued)

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:

<u>Sub-series</u>	<u>Par Amount</u>	<u>Rate Reset Period</u>	<u>Broker-Dealer(s)</u>
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	<u>\$ 183,775,000</u>		

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	<u>\$ 2,713,883</u>	<u>\$ 308,635</u>	<u>\$ (20,194)</u>	<u>\$ 3,002,324</u>	<u>\$ 173,129</u>	<u>\$ 3,175,453</u>
Less Current Portion						(18,172)
Net Premium/(Discount)						5,846
Total Long-term Debt, net of Current Portion and Premium/Discount						<u>\$ 3,163,127</u>

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

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

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

NOTE 8. LONG-TERM DEBT (continued)

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	<u>\$ 2,503,078</u>	<u>\$ 3,206,898</u>	<u>\$ 486,775</u>	<u>\$ 426,080</u>	<u>\$ 120,666</u>	<u>\$ 6,743,497</u>

* 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: $(3.782\% - 0.98\%) \times \text{Outstanding Principal}$

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
	<u>\$ 131,851</u>	<u>\$ 41,278</u>	<u>\$ 173,129</u>	<u>\$ 1,487,528</u>	<u>\$ 1,314,399</u>

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):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Equipment Leases</u>	<u>Total</u>
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	<u>\$ 698,899</u>	<u>\$ 7,124</u>	<u>\$ 706,023</u>

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

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

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

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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	<u>\$ 183,775,000</u>			<u>\$ (12,146,731)</u>

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	<u>\$ 288,398</u>	<u>\$ 77,915</u>	<u>\$ (76,435)</u>	\$ 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				<u>\$ 258,089</u>

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):

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

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	<u>13,127</u>
Total contributions	<u>\$ 78,172</u>

NOTE 12. PENSION BENEFITS (continued)

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):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
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	<u>(36,911)</u>	<u>(30,865)</u>	<u>(24,710)</u>
Annual Pension Cost (APC) for the fiscal year ended June 30,			
2003	\$ 183,258	\$ 198,139	\$ 204,361
Less: Contributions made	<u>(78,172)</u>	<u>(75,337)</u>	<u>(79,347)</u>
Add: Segregated health care benefits	<u>40,000</u>	<u>n/a</u>	<u>n/a</u>
Increase in NPO	\$ 145,086	\$ 122,802	\$ 125,014
Add NPO, beginning of year	<u>749,667</u>	<u>626,865</u>	<u>501,851</u>
NPO, end of year	<u>\$ 894,753</u>	<u>\$ 749,667</u>	<u>\$ 626,865</u>
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.

NOTE 12. PENSION BENEFITS (continued)

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):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
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)	<u>\$ 406,421</u>	<u>\$ (5,136)</u>	<u>\$ 328,169</u>
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.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
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).

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal and Sinking Fund Installments</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 391,410</u>	<u>\$ 74,792</u>	<u>\$ 466,202</u>

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):

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

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

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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 statute. 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).

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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.

NOTE 16. SUBSEQUENT EVENTS (continued)

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:

<u>Sub-series</u>	<u>Par Amount</u>	<u>Rate Reset Period</u>	<u>Broker-Dealer(s)</u>
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	<u>\$ 257,925,000</u>		

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 Indentures not summarized elsewhere in this Official Statement. Each Indenture is substantially identical, with such changes as are necessary to identify and describe the particular bond issue. References to “Bonds,” “Pledged City Note Revenues,” “City Note” and the like in each case refer only to the Bonds of a particular issue. Reference is made to each 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 City Note Revenues with the Bonds, as described in this Appendix B under the heading “ADDITIONAL BONDS PAYABLE FROM PLEDGED CITY NOTE REVENUES.”

“*Alternate Bonds*” means general obligation bonds of the Board payable from any revenue source as provided by the Act, particularly Section 15 thereof.

“*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 under the Indenture by resolution duly adopted by the Board.

“*Available Funds*” means, as of any determination date, the sum of (i) the cash and (ii) the amount of Investment Securities (valued for this purpose at the lower of cost or market value) held by the Trustee in all Funds, Accounts and Sub-Accounts established by the Indenture (after taking into account any amounts paid for any Debt Service payment made on such determination date).

“*Board*” means the Chicago Board of Education, created and established pursuant to Article 34 of the School Code.

“*Board Advance*” means, at any time of determination, an amount equal to (a) the sum of (i) the cumulative amount of funds deposited into the Board Contribution Sub-Account pursuant to the Indenture, (ii) the cumulative amount of any Pledged Taxes extended for collection by the County Collectors pursuant to the Indenture and the Bond Resolution, and (iii) the amount of accrued interest on such funds so deposited and Pledged Taxes so extended from time to time

from the February 1 prior to the date(s) of such deposit or such tax levy extension to the date of determination calculated at the Board Investment Rate by the Trustee, reduced by (b) the cumulative amount, if any, of payments made to the Board pursuant to the Indenture.

“Board Contribution Sub-Account” means the sub-account of that name in the Pledged City Note Revenues Account established by the Indenture.

“Board Investment Rate” means the interest rate borne by the City Note.

“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 account of that name within the Debt Service Fund established by the Indenture.

“Bond Payment Account Requirement” means, on each Deposit Date, an amount equal to the aggregate amount of interest on and principal of the Bonds to become due and payable on the June 1 and December 1 next succeeding such Deposit Date.

“Bond Resolution” means the respective resolution adopted by the Board on November 17, 2004 authorizing the issuance of the Bonds secured by the Indenture.

“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 Bonds, of the Board, being issued under the respective Indenture and any Bonds issued under such Indenture in substitution or replacement therefore.

“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).

“Capitalized Interest Sub-Account” means the sub-account of that name in the Pledged City Note Revenues Account established by the Indenture.

“City” means the City of Chicago, Illinois.

“*City Note*” means the City’s Tax Increment Allocation Revenue Note relating to the Bonds which shall be issued by the City to the Board for the purpose of paying a portion of the cost of, or reimbursing the School District for the payment of the cost of, certain improvements described in the respective Intergovernmental Agreement.

“*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.

“*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*” means, for any period of computation, the principal of and interest on the Bonds becoming due and payable (whether upon maturity, mandatory sinking fund redemption or otherwise) during such period.

“*Debt Service Fund*” means the fund of that name established by 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 2 of each year commencing February 2, 2005 or, if such day is not a Business Day, the next succeeding Business Day.

“*Designated Official*” means (i) the President of the Board, (ii) the Chief Fiscal Officer of the Board or (iii) any other officer of the Board authorized to perform specific acts and duties under the Indenture 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.

“Event of Default” means any event so designated and specified as such in this Appendix B under the heading “EVENTS OF DEFAULT AND REMEDIES -- EVENTS OF DEFAULT.”

“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 December 1, 2004, by and between the Board and the Trustee, as from time to time amended and supplemented, securing the Bonds.

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

“Intergovernmental Agreement” means the respective Intergovernmental Agreement between the Board and the City pursuant to which the City has agreed to issue its City Note, as amended and supplemented from time to time.

“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, a division of the McGraw-Hill Companies (“S&P”) and “Aaa” by Moody’s Investors Service (“*Moody’s*”) issued by Fannie Mae, the Federal Home Loan Mortgage Corporation, or any other agency created by act of the United States Congress;
- (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 mature 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; and
- (viii) Pre-refunded Municipal Obligations.

“Letter of Representations” means the Blanket Issuer Letter of Representations dated March 15, 2002, between the Board and DTC, relating to the book-entry only system for the Bonds described in the Indenture.

“Outstanding” means, as of any date, all Bonds 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice;
- (iii) Bonds in lieu of or in substitution for which other Bonds will have been authenticated and delivered in connection with any substitution, transfer or exchange; and
- (iv) Bonds deemed to have been paid as described herein under the heading “DEFEASANCE.”

“Owner” means any person who is 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.

“Payment Amount” means, at any determination date, the sum of (i) the total amount of remaining unpaid Debt Service on the Bonds (after taking into account any Debt Service payment made on such determination date) to maturity and (ii) the amount, if any, of the Board Advance.

“Person” means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability company, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

“Pledged City Note Revenues” means all payments of principal of and interest on the City Note whenever received.

“Pledged City Note Revenues Account” means the account of that name in the Debt Service Fund established by the Indenture.

“Pledged City Note Revenues Sub-Account” means the sub-account of that name in the Pledged City Note Revenues Account established by the Indenture.

“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 levied pursuant to the Bond Resolution, and pledged under the Indenture as security for the Bonds.

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

“Project” means the construction, acquisition and equipping of school and administrative buildings, site improvements and other real and personal property in and for the School District.

“Project Costs” means the cost of acquisition, construction and equipping of the TIF Funded Improvements, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the Board for such construction, the cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved, the cost of all machinery and equipment determined to be necessary and desirable by the Board, the costs of

issuance of the Bonds, financing charges, financial advisory fees, consultant fees, required payments of arbitrage rebate pursuant to the Code and Regulations, interest prior to and during construction and for such period after completion of construction as the Board shall determine, the cost of engineering and legal expenses, plans, specifications, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing any portion of the TIF Funded Improvements, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction of the TIF Funded Improvements, the financing of such construction and the placing of the TIF Funded Improvements in operation, *provided, however*, only to the extent that such costs constitute “redevelopment project costs” within the meaning of the Tax Increment Allocation Redevelopment Act, as amended, of the State.

“*Project Fund*” means the Project Fund established by the Indenture.

“*Rating Services*” means the nationally recognized rating services, or any of them, that will 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 fifteenth 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.

“*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.

“*SLG’s*” means United States Treasury Certificates of Indebtedness, Notes and Bonds-State and Local Government Series.

“*State*” means the State of Illinois.

“*Supplemental Indenture*” means any Supplemental Indenture of the Board authorized pursuant to the Indenture.

“*Tax Agreement*” means the Tax Exemption Agreement and Certificate, dated the date of issuance of the Bonds, executed by the Board and the Trustee.

“*Trustee*” means U.S. Bank National Association, Chicago, Illinois, and any successor or successors appointed under the Indenture as thereafter provided.

“Trust Estate” means the Pledged City Note 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 City Note Revenues and the Pledged Taxes.
- (b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture.
- (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 City Note 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 to the extent required by law will 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 City Note Revenues, together with investment earnings thereon, for a complete fiscal year of the Board.

The Board may, in its sole discretion, deposit other legally available funds of the Board with the Trustee for deposit into the Board Contribution Sub-Account established by the Indenture.

ADDITIONAL BONDS PAYABLE FROM PLEDGED CITY NOTE 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 City Note 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 Indenture authorizes the issuance of Additional Bonds from time to time for the purpose of refunding any Outstanding Bonds or Additional Bonds payable from all or any portion of the Pledged City Note Revenues

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 City Note 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 Pledged City Note Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Pledged City Note Revenues available to the Board in each year in excess of those required to be deposited in the Pledged City Note Revenues Account under the Indenture during such year.

PROVISIONS REGARDING PAYMENT OF BONDS

The principal and Redemption Price of the Bonds is payable at the designated principal corporate trust office of the Trustee, in the City of St. Paul, Minnesota, 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 close of business on 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 PROJECT FUND

The Project Fund 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 Project Fund 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 Project Costs upon receipt by the Trustee of a certificate of an Authorized Officer of the Board describing the Project Costs to be paid or reimbursed with such moneys and stating that:

- (i) the costs of an aggregate amount set forth in such certificate are necessary and appropriate Project Costs that (A) have been incurred and paid or (B) are expected to be paid within the next 60 days;
- (ii) the amount to be paid or reimbursed to the Board, as set forth in such certificate, is reasonable and represents a part of the amount payable for the Project Costs and that such payment is to be made or, in the case of reimbursement to the Board, was made, in accordance with the terms of any applicable contracts and in accordance with usual and customary practice under existing conditions;
- (iii) no part of the Project Costs that are the subject of such certificate was included in any certificate previously filed with the Trustee under the provisions of the Indenture; and
- (iv) the use of the money so withdrawn from the Project Fund and the use of the facilities provided with such moneys will not result in a violation of any covenant, term or provision of the Tax Agreement.

Moneys in the Project Fund will be invested at the written direction of a Designated Official to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Project Costs or such other costs as may be required to be paid from such moneys. The Board may, and to the extent required for payments from the Project Fund will, direct the Trustee to sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, will be held in the Project Fund. Earnings received on moneys or securities in the Project Fund will be retained therein and applied to the purposes for which moneys in the Project Fund are otherwise held.

The completion, substantial completion or abandonment of the Project is to be evidenced by a certificate of an Authorized Officer, which is to be filed promptly with the Trustee, stating the date of such completion, anticipated completion, abandonment or reduction in scope and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the Project Costs. Upon the filing of such certificate, the balance in the Project Fund in excess of the amount, if any, stated in such certificate of the Board as necessary to complete the Project will be deposited into such accounts of the Debt Service Fund as may be directed in such certificate.

ESTABLISHMENT AND APPLICATION OF DEBT SERVICE FUND AND ACCOUNTS

The Debt Service Fund and the following accounts within the Debt Service Fund are established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture: (i) Pledged City Note Revenues Account, consisting of the Capitalized Interest Sub-Account, the Pledged City Note Revenues Sub-Account and the Board Contribution Sub-Account; (ii) Pledged Taxes Account; and (iii) Bond Payment Account, consisting of the Interest Sub-Account and the Principal Sub-Account.

The proceeds of the Bonds deposited to the credit of the Capitalized Interest Sub-Account pursuant to the Indenture, and any other amounts deposited to the credit of such Sub-Account, will be transferred to the Interest Sub-Account and applied to the payment of the interest due on the Bonds on such dates as described below.

Promptly upon payment of principal of, premium, if any, or interest on the City Note, the Board will deposit, or cause to be deposited, to the credit of the Pledged City Note Revenues Sub-Account all such Pledged City Note Revenues.

The Board may, at its option, deposit other legally available funds of the Board with the Trustee, which funds will be deposited into the Board Contribution Sub-Account.

As described in the Indenture, 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. All Pledged Taxes received by the Trustee shall be deposited promptly upon receipt into the Pledged Taxes Account.

On the Deposit Date, the Trustee shall transfer moneys *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Capitalized Interest Sub-Account and *third* from the Pledged City Note Revenues Sub-Account and *last* from the Board Contribution Sub-Account: (i) first, the Interest Sub-Account, the amount required for the interest payable on the next June 1 and December 1 less the amount then on deposit in the Interest Sub-Account and available for such payment (except in the case of the Series 2004G Bonds, in which case the amount to be transferred from the Capitalized Interest Account shall be equal to one-half of the amount of such interest); and (ii) second, to the Principal Sub-Account, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on the next December 1, and the amount required for the payment of the Redemption Price of the Bonds, subject to the mandatory redemption provisions contained in the Indenture on the next December 1, less the amount then on deposit in the Principal Sub-Account and available for such payment. If on any date on which interest or principal is due on the Bonds and there are insufficient funds on deposit in the Interest Sub-Account or the Principal Sub-Account, as the case may be, to pay such interest or principal the Trustee shall transfer from the Pledged Taxes Account, to the extent of funds therein, an amount to remedy such deficiency first to the Interest Sub-Account and second to the Principal Sub-Account.

On or before February 15 of each year, the Trustee shall deliver to the Board a Notice Re: Sufficiency of Pledged City Note Revenues substantially in the form attached to the Indenture evidencing the deposit of sums for the payment of principal of and interest on the Bonds due during the current Bond Year and directing the Board to take such necessary actions to abate all or a portion of the Pledged Taxes.

If the Board shall receive such a Notice Re: Sufficiency of Pledged City Note Revenues, the Board shall, pursuant to the Indenture, take such actions as are necessary to abate all or a portion of the Pledged Taxes levied to otherwise provide funds for the payment of the Debt Service on the Bonds in amounts equal to amounts on deposit in the Bond Payment Account. The Board will make the deposit required pursuant to the Indenture on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

On December 1, February 2 and on any other date as may be designated by the Board in writing to the Trustee, the Trustee shall determine the amount of Available Funds and the Payment Amount and if the Available Funds exceeds the amount of the Payment Amount on such determination date, the Trustee shall transfer to the Board the amount of such excess *first* from the Board Contribution Sub-Account and *second* from the Pledged City Note Revenues Sub-Account to the extent of funds therein.

On February 2 of each Bond Year and on any other date on or before November 30 of such Bond Year as may be designated by the Board in writing to the Trustee if on such date (i) there is on deposit in the Bond Payment Account funds sufficient to pay Debt Service on the Bonds falling due and payable during such Bond Year, (ii) payment of principal of and interest on the City Note is current, and (iii) there exists a Board Advance, the Trustee shall transfer to the Board such amount as the Board may request in writing not in excess of the Board Advance *first* from the Board Contribution Sub-Account and *second* from the Pledged City Note Revenues Sub-Account to the extent of funds therein.

On February 2 of each Bond Year and on any other date on or before November 30 of such Bond Year as may be designated by the Board in writing to the Trustee if on such date (i) there is on deposit in the Bond Payment Account funds sufficient to pay Debt Service on the Bonds falling due and payable during such Bond Year, (ii) the City has not made a payment of all or a portion of the principal of and interest on the City Note when due, (iii) the Board has made a cash deposit into the Board Contribution Sub-Account as a result of such overdue payment or taxes have not been abated and (iv) the City thereafter makes all or a portion of such overdue payment, the Trustee shall transfer to the Board such amount as the Board may request in writing not in excess of the lesser of (A) such Board deposit or (B) the amount of such overdue payment by the City, *first* from the Board Contribution Sub-Account and *second* from the Pledged City Note Revenues Sub-Account to the extent of funds therein.

INVESTMENT OF FUNDS

INVESTMENT OF CERTAIN MONEYS

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and in the Project Fund 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. 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. Any transfers of funds between any Fund, Account, or Sub-Account required or permitted by the Indenture may be made by transferring all or a portion of an Investment Security. 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 or requested by the Board 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 CITY NOTE REVENUES, THE CITY NOTE AND THE INTERGOVERNMENTAL AGREEMENT

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 City Note Revenues, together with investment earnings thereon, to the payment of the Bonds and the

provision of not less than an additional .10 times annual Debt Service. The Board will comply with all present and future applicable laws, including the provisions of the City Note and the Intergovernmental Agreement, in order to assure that the Pledged City Note Revenues may be allocated and paid to the Board for application as provided in the Indenture.

The Board covenants under the Indenture, so long as there are any Outstanding Bonds or the total amount of remaining unpaid Debt Service on the Bonds is less than the Available Funds, not to amend the Intergovernmental Agreement nor to consent to the amendment of the City Note in any manner that would reduce the amount of Pledged City Note Revenues or change the timing for the payment thereof that would result in the Pledged City Note Revenues received and to be received by the Board being less than an amount, together with estimated investment earnings thereon, providing for the payment of the principal of and interest on the Outstanding Bonds when due and providing for not less than an additional .10 times annual Debt Service in each Bond Year.

The Board covenants under the Indenture, so long as there are any Outstanding Bonds, to enforce the covenants and agreements of the City contained in the City Note and the Intergovernmental Agreement and, upon the occurrence of any default or event of default there under, to exercise the remedies provided therein.

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. So 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 or procedures or rules, regulations or procedures there under 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 BONDS -- Pledged Taxes," the Board will direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will 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.

So 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 City Note 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 provided in the Indenture, create or cause to be created any lien or charge on the Pledged City Note Revenues, the Pledged Taxes or such moneys, securities or funds.

ACCOUNTS AND REPORTS

The Board will keep or cause to be kept 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 City Note 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; 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.

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 exercising 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 City Note 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; and

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 therefore, 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 over 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.

RIGHTS OF BOND INSURER

The foregoing notwithstanding, 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 there under, the Bond Insurer shall have the right to direct all remedies upon the happening of an Event of Default and shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner in accordance with the terms of this Indenture.

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, in which event such resignation will take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee has not been appointed 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. 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 resigns or is removed or becomes 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.

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 organized under the laws of any state of the United States or a national banking association, doing business and having its principal corporate trust office in the State of Illinois, and having capital and undivided 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 City Note 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, as authorized in the Indenture, including, without limitation, any amendments thereto necessary or desirable to reflect the issuance of such Additional Bonds in any calculations or determinations required or permitted by the Indenture;
- (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, or (b) a reduction in the amount of, or extension of the time of, any payment required by any sinking fund applicable to any Bonds without the consent of the Owners of all the Bonds which would be affected by the action to be taken, or (c) except for the pledge of the Pledged City Note 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, or (d) 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, or (e) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (f) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Bondholder to the extent otherwise afforded under the Code and Regulations.

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 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. 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 therefore 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.

The foregoing notwithstanding, 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 Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required by the Indenture.

RIGHTS OF BOND INSURER

The Bond Insurer shall receive copies of all notices required to be delivered to Owners and, on an annual basis, be provided by the Board with copies of the Board's audited financial statements. Any notice that is required to be given to an Owner of any Bonds or to the Trustee pursuant to the Indenture shall also be provided to the Bond Insurer.

Notwithstanding anything contained in the Indenture or the Bonds to the contrary, the existence of all rights given to the Bond Insurer thereunder with respect to the giving of consents or approvals, the receipt of notices and the direction of proceedings or otherwise are expressly conditioned upon the timely and full performance of the obligations of the Bond Insurer under the Bond Insurance Policy.

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 pledged 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 therefore (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.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal of and/or interest on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, shall not be deemed to be defeased or otherwise satisfied and not be considered paid by the Board, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Board to the Owners of the Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Owners.

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APPENDIX C

Forms of Opinions of Bond Counsel

Date of Delivery

Board of Education of the
City of Chicago
125 South Clark Street
Chicago, Illinois 60603

George K. Baum & Company
as Representative of the Underwriters
named in the Contract of Purchase,
dated December 2, 2004
11 South LaSalle Street
Chicago, Illinois 60603

U.S. Bank National Association,
as trustee
209 South LaSalle, Suite 300
Chicago, Illinois 60604

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues – Albany Park
Academy Project), Series 2004F

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the “School District”), governed by the Chicago Board of Education (the “Board”) of its \$25,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues – Albany Park Academy Project), Series 2004F (the “Bonds”). As 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 December 1, 2004 (the “Indenture”), between the Board and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, a Resolution adopted by the Board on November 17, 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 paying for the costs of constructing an elementary school located at 4901-4957 North Sawyer Avenue and 4900 North Kedzie Avenue in Chicago, Illinois and to be known as the Albany Park Academy (the “Project”).

The Bonds are dated the date of issuance thereof 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:

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2011	\$ 890,000	4.00%
2012	920,000	4.00
2013	1,160,000	4.00
2014	1,210,000	4.75
2015	1,465,000	5.50
2016	1,545,000	5.50
2017	1,830,000	5.50
2018	1,930,000	5.50
2019	2,040,000	5.50
2020	2,150,000	5.50
2021	2,270,000	5.50
2022	2,395,000	5.50
2023	2,525,000	5.75
2024	2,670,000	5.75

In our capacity as 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, the execution and delivery of the Indenture and the issuance of the Bonds;
- (b) a certified copy of the Bond Resolution;
- (c) an executed counterpart of the Indenture; 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.
2. The Indenture has 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 Trustee, the Indenture is valid and binding upon the Board and enforceable in accordance with its 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 ratably and equally (i) together with any bonds issued on a parity therewith under the terms of the Indenture from the “Pledged City Note Revenues”, being payments of the principal of and interest on the Tax Increment Allocation Revenue Note (Lawrence/Kedzie Redevelopment Project), Series 2004F (the “City Note”), of the City of Chicago, Illinois (the “City”), issued by the City to the Board and (ii) from the “Pledged Taxes”, being ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. 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 the County Collector of The County of Cook, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

8. Subject to the condition that the Board complies 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 have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds.

The rights of the registered owners of the Bonds and the enforceability of provisions of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights. Enforcement of provisions of the Bonds and the Indenture 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.

Respectfully submitted,

Date of Delivery

Board of Education of the
City of Chicago
125 South Clark Street
Chicago, Illinois 60603-4016

George K. Baum & Company
as Representative of the Underwriters
named in the Contract of Purchase,
dated December 2, 2004
11 South LaSalle Street
Chicago, Illinois 60603

U.S. Bank National Association,
as trustee
209 South LaSalle, Suite 300
Chicago, Illinois 60604-1450

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues - Benito Juarez
Community Academy Project), Series 2004G

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the "School District"), governed by the Chicago Board of Education (the "Board") of its \$12,500,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues - Benito Juarez Community Academy Project), Series 2004G (the "Bonds"). As 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 December 1, 2004 (the "Indenture"), between the Board and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, a Resolution adopted by the Board on November 17, 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 paying for the costs of rehabilitating and expanding a secondary school located at 1440 West 21st Place and 1405 West 21st Street in Chicago, Illinois and known as Benito Juarez Community Academy (the "Project").

The Bonds are dated the date of issuance thereof 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:

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2011	\$ 260,000	4.00%
2012	270,000	4.50
2013	775,000	4.50
2014	815,000	4.75
2015	915,000	5.50
2016	965,000	5.50
2017	1,220,000	6.00
2018	1,290,000	6.00
2019	1,370,000	6.00
2020	1,450,000	6.00
2021	1,540,000	6.00
2022	1,630,000	6.00

In our capacity as 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, the execution and delivery of the Indenture and the issuance of the Bonds;
- (b) a certified copy of the Bond Resolution;
- (c) an executed counterpart of the Indenture; 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.
2. The Indenture has 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 Trustee, the Indenture is valid and binding upon the Board and enforceable in accordance with its 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 ratably and equally (i) together with any bonds issued on a parity therewith under the terms of the Indenture from the “Pledged City Note Revenues”, being payments of the principal of and interest on the Tax Increment Allocation Revenue Note (Pilsen Redevelopment Project), Series 2004G (the “City Note”), of the City of Chicago, Illinois (the “City”), issued by the City to the Board and (ii) from the “Pledged Taxes”, being ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. 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 the County Collector of The County of Cook, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

8. Subject to the condition that the Board complies 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 have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds.

The rights of the registered owners of the Bonds and the enforceability of provisions of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights. Enforcement of provisions of the Bonds and the Indenture 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.

Respectfully submitted,

Date of Delivery

Board of Education of the
City of Chicago
125 South Clark Street
Chicago, Illinois 60603-4016

George K. Baum & Company
as Representative of the Underwriters
named in the Contract of Purchase,
dated December 2, 2004
11 South LaSalle Street
Chicago, Illinois 60603

U.S. Bank National Association,
as trustee
209 South LaSalle, Suite 300
Chicago, Illinois 60604-1450

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues – DePriest Elementary School Project), Series 2004H

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the “School District”), governed by the Chicago Board of Education (the “Board”) of its \$18,500,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues - DePriest Elementary School Project), Series 2004H (the “Bonds”). As 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 December 1, 2004 (the “Indenture”), between the Board and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, a Resolution adopted by the Board on November 17, 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 paying for the costs of constructing an elementary school located at 123-125, 138 and 139 South Parkside Avenue in Chicago, Illinois and to be known as the DePriest Elementary School (the “Project”).

The Bonds are dated the date of issuance thereof 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:

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2011	\$ 665,000	4.00%
2012	695,000	4.00
2013	925,000	4.00
2014	960,000	4.75
2015	1,205,000	5.50
2016	1,275,000	5.50
2017	1,545,000	5.50
2018	1,630,000	5.50
2019	1,720,000	5.50
2020	1,815,000	5.50
2021	1,915,000	5.50
2022	2,020,000	5.50
2023	2,130,000	5.75

In our capacity as 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, the execution and delivery of the Indenture and the issuance of the Bonds;

(b) a certified copy of the Bond Resolution;

(c) an executed counterpart of the Indenture; 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.

2. The Indenture has 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 Trustee, the Indenture is valid and binding upon the Board and enforceable in accordance with its 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 ratably and equally (i) together with any bonds issued on a parity therewith under the terms of the Indenture from the “Pledged City Note Revenues”, being payments of the principal of and interest on the Tax Increment Allocation Revenue Note (Madison/Austin Corridor Redevelopment Project), Series 2004H (the “City Note”), of the City of Chicago, Illinois (the “City”), issued by the City to the Board and (ii) from the “Pledged Taxes”, being ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. 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 the County Collector of The County of Cook, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

8. Subject to the condition that the Board complies 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 have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds.

The rights of the registered owners of the Bonds and the enforceability of provisions of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights. Enforcement of provisions of the Bonds and the Indenture 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.

Respectfully submitted,

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APPENDIX D

Specimen Municipal Bond Insurance Policy

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 National Association, in Chicago, Illinois, 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

President

Assistant Secretary

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