DAC Bond

OFFICIAL STATEMENT DATED DECEMBER 6, 2005

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

In the opinion of Mayer Brown Rowe & Maw LLP and Burke Burns & Pinelli, Ltd., both of Chicago, Illinois, Co-Bond Counsel, subject to compliance with certain covenants made by the Board to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest on the Bonds described herein 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 taken into account in computing the corporate alternative minimum tax. Interest on the Bonds is not exempt from income taxes currently imposed by the State of Illinois. See the caption "TAX MATTERS" herein regarding a description of other tax considerations.

$325,000,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues)

$37,945,000	$157,055,000	$65,000,000	$65,000,000
Series 2005D-1	Series 2005D-2	Series 2005E-1	Series 2005E-2
Due: March 1, 2012	Due: March 1, 2036	Due: March 1, 2026	Due: March 1, 2026
CUSIP: 167501 4Y8	CUSIP: 167501 4Z5	CUSIP: 167501 5A9	CUSIP: 167501 5B7

Dated: Date of Delivery **Price:** 100%

This Official Statement contains information relating to the Bonds while bearing interest in the Daily Mode, the Weekly Mode or the Flexible Mode. Purchasers of the Bonds should not rely on this Official Statement for information relating to the Bonds bearing interest in the Term Rate Mode, the Fixed Mode or the Auction Rate Mode. If any Bonds are converted to the Term Rate Mode, the Fixed Mode or the Auction Rate Mode, it is expected that the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in the Term Rate Mode, the Fixed Mode or the Auction Rate Mode.

The Series 2005D-1 and Series 2005D-2 Bonds shall be referred to collectively as the "Series 2005D Bonds" and the Series 2005E-1 and Series 2005E-2 Bonds as the "Series 2005E Bonds." The Series 2005D and Series 2005E Bonds are being issued pursuant to separate, substantially identical Trust Indentures, dated December 1, 2005 (the "Indentures"), between the Board of Education of the City of Chicago (the "Board") and J.P. Morgan Trust Company, National Association, Chicago, Illinois, as trustee (the "Trustee"). Upon initial issuance, the Series 2005D and Series 2005E Bonds will have separate Liquidity Agreements, as described herein, and the Series 2005D, Series 2005E-1 and Series 2005E-2 Bonds will each have a separate Remarketing Agreement with a Remarketing Agent as described herein.

The Bonds of each series are fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is the securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in Bonds purchased. Principal of and interest on the Bonds will be paid by the Trustee to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursal of such payments to beneficial owners will be the responsibility of DTC and its participants. See "THE BONDS – Book-Entry Only System" herein. During any Daily Mode, Weekly Mode or Flexible Mode, the Bonds are issuable in denominations of $100,000 or integral multiples of $5,000 in excess thereof.

The Bonds of Series 2005D-1 and Series 2005D-2 will bear interest at a Daily Rate and the Bonds of Series 2005E-1 and Series 2005E-2 will bear interest at a Weekly Rate until and unless converted to a different Interest Mode as described herein. The Bonds of each series may bear interest from time to time at a Daily Rate, a Weekly Rate, a Flexible Rate, an Auction Rate, a Term Rate or a Fixed Rate as determined from time to time by the Remarketing Agents, in consultation with the Board, as described in this Official Statement. During any Daily Mode or Weekly Mode, Bonds shall be purchased upon the demand of the owner at 100% of the principal amount plus accrued interest, if any, to the date of purchase, after the giving of notice as described in this Official Statement. During any Flexible Mode, Bonds are subject to mandatory purchase on the Interest Payment Date therefore. The Bonds also are subject to optional tender and mandatory purchase prior to maturity as described in this Official Statement.

Purchase of Tendered Bonds (as defined herein) in the Daily Mode or Weekly Mode that are not remarketed by the Remarketing Agents will be funded, subject to certain conditions described herein, pursuant to (i) a Standby Bond Purchase Agreement for the Series 2005D Bonds (the "Series 2005D Initial Liquidity Agreement") by and among the Board, the Trustee and DEPFA BANK plc, acting through its New York Branch (the "Series 2005D Initial Bank"); and (ii) a Standby Bond Purchase Agreement for the Series 2005E Bonds (the "Series 2005E Initial Liquidity Agreement") by and among the Board, the Trustee and Dexia Credit Local, acting through its New York Branch (the "Series 2005E Initial Bank").

DEPFA BANK
DEPFA BANK plc

DEXIA
Crédit Local

Each Initial Liquidity Agreement expires on December 8, 2012, unless extended or terminated sooner in accordance with the terms thereof. UPON THE OCCURRENCE OF CERTAIN EVENTS OF DEFAULT UNDER THE RESPECTIVE INITIAL LIQUIDITY AGREEMENT AS MORE FULLY DESCRIBED HEREIN, THE OBLIGATION OF THE APPLICABLE INITIAL BANK TO PURCHASE THE RESPECTIVE SERIES OF BONDS SHALL IMMEDIATELY SUSPEND OR TERMINATE WITHOUT NOTICE OR DEMAND TO ANY PERSON. See "THE BONDS – Tenders – General", "SERIES 2005D INITIAL LIQUIDITY AGREEMENT" and "SERIES 2005E INITIAL LIQUIDITY AGREEMENT."

The proceeds from the sale of the Bonds, together with certain moneys of the Board, will be used to (i) continue financing the Board's Capital Improvement Program, (ii) pay debt service on the Bonds to and including March 1, 2007 and (iii) pay costs of issuance of the Bonds. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Capital Improvement Program" and "THE BONDS – Estimated Sources and Uses of Funds."

The Bonds are a general obligation of the Board to the payment of which the Board has pledged its full faith and credit. The Bonds of each series are payable from specified amounts of Pledged State Aid Revenues described herein, consisting of certain General State Aid Revenues, and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the 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 are also payable from all Funds, Accounts and Sub-Accounts (each as defined in Appendix B hereto) established pursuant to the Indentures as security for each series of Bonds. See "SECURITY FOR THE BONDS."

The scheduled payment of principal of and interest on each series of the Bonds when due will be guaranteed under a separate municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by CIFG Assurance North America, Inc., (the "Bond Insurer"). See "BOND INSURANCE."

CIFG
IXIS FINANCIAL GUARANTY

The Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity, as more fully described in this Official Statement.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of approving legal opinions of Mayer Brown Rowe & Maw LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks, and by Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois; for the Underwriters by their co-counsel, McGuireWoods LLP, Chicago, Illinois, and Tyson Strong Hill, LLC, Chicago, Illinois; and for the Initial Banks by their special counsel, Chapman and Cutler LLP, Chicago, Illinois, and by their foreign counsel. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about December 8, 2005.

LEHMAN BROTHERS

LOOP CAPITAL MARKETS, LLC
HUTCHINSON, SHOCKEY, ERLEY & CO.
MELVIN SECURITIES, L.L.C.

MORGAN STANLEY
JACKSON SECURITIES
POPULAR SECURITIES, INC.

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.

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

This Official Statement should be considered in its entirety. 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 Indentures for the Bonds. Copies of the Indentures are available for inspection at the offices of the Board and the Trustee. 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 Indentures are defined in APPENDIX B and unless otherwise indicated shall have the respective meanings set forth therein.

Other than with respect to information concerning CIFG Assurance North America, Inc. (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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THE CITY OF CHICAGO

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Mayer Brown Rowe & Maw LLP
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Kirkpatrick Pettis
Financial Advisors

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$325,000,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues)

$37,945,000	$157,055,000	$65,000,000	$65,000,000
Series 2005D-1	Series 2005D-2	Series 2005E-1	Series 2005E-2
Due: March 1, 2012	Due: March 1, 2036	Due: March 1, 2026	Due: March 1, 2026
CUSIP: 167501 4Y 8	CUSIP: 167501 4Z 5	CUSIP: 167501 5A 9	CUSIP: 167501 5B 7

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of its $325,000,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D-1, 2005D-2, 2005E-1 and 2005E-2. The Bonds will be issued in four series: (1) Series 2005D-1 in the amount of $37,945,000 initially issued in the Daily Mode (the "Series 2005D-1 Bonds"); (2) Series 2005D-2 in the amount of $157,055,000 initially issued in the Daily Mode (the "Series 2005D-2 Bonds" with the Series 2005D-1 Bonds, the "Series 2005D Bonds"); (3) Series 2005E-1 in the amount of $65,000,000 initially issued in the Weekly Mode ("Series 2005E-1 Bonds"); and (4) Series 2005E-2 in the amount of $65,000,000 initially issued in the Weekly Mode (the "Series 2005E-2 Bonds" with the Series 2005E-1 Bonds, the "Series 2005E Bonds") (collectively, the Series 2005D and Series 2005E Bonds, the "Bonds").

This Official Statement describes only the terms and provisions applicable to any series of the Bonds while in the Daily Mode, the Weekly Mode or the Flexible Mode. If the Interest Mode applicable to any series of the Bonds is changed to the Term Rate Mode, the Fixed Mode or the Auction Rate Mode, it is expected that the Board will supplement this Official Statement or deliver a new official statement or other disclosure document describing such series of the Bonds in the Term Rate Mode, the Fixed Mode or the Auction Rate Mode. Purchasers of any series of the Bonds should not rely on this Official Statement for information relating to such series of the Bonds bearing interest in the Term Rate Mode, the Fixed Mode or the Auction Rate Mode.

Authorization. The Bonds will be issued by the Board pursuant to (i) the provisions of the School Code of the State of Illinois, as amended (the "School Code"), (ii) the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), (iii) 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 aggregate amount not to exceed $965,000,000, (iv) a resolution adopted by the Board on November 16, 2005 (the "Bond Resolution" and, together with the 2004 Authorization, the "Resolutions"), and (v) for the Series 2005D and 2005E Bonds, separate Trust Indentures, each dated as of December 1, 2005 (the "Indentures"), by and between the Board and J.P. Morgan Trust Company, National Association, Chicago, Illinois, as trustee (the "Trustee"). See "APPENDIX B - Summary of

Certain Provisions of the Indenture." All references to the Bonds, the Indentures, the Liquidity Facilities, the Initial Liquidity Agreements, the Remarketing Agreements, the Remarketing Agents, the Trustee, the Bond Insurer and other defined terms should be read as referring separately to each series of the Bonds and to the related Indenture, Liquidity Facility, Initial Liquidity Agreement, Remarketing Agreement, Remarketing Agent, Trustee and Bond Insurer.

Purpose. The Board is issuing the Bonds to (i) provide funds for the continued implementation of its Capital Improvement Program, (ii) pay debt service on the Bonds to and including March 1, 2007, and (iii) pay certain costs of issuance of the Bonds. See "THE BONDS – Estimated Sources and Uses of Funds."

The Capital Improvement Program is an ongoing plan of work organized around three objectives: (i) reducing student density, (ii) achieving a minimum level of physical condition and operating efficiency and (iii) improving the overall quality of the learning environment. These objectives are organized into three general program areas: (i) new construction, (ii) building renovation and (iii) educational enhancements. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO - Capital Improvement Program."

The Bonds will be secured by and are payable (i) from the Pledged State Aid Revenues (as defined herein), (ii) to the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, from the ad valorem taxes levied by the Board, pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indentures as security for the Bonds (the "Pledged Taxes") and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the Indentures. See "SECURITY FOR THE BONDS – General" and "– General State Aid" for a discussion of Pledged State Aid Revenues and additional information pertaining to General State Aid. For a discussion of other obligations of the Board payable from the Board's annual receipt of State Aid Revenues (as defined herein), see "– Other State Aid Obligations" below.

Bond Insurance. Upon the issuance of the Bonds, CIFG Assurance North America, Inc., (the "Bond Insurer") will issue a separate municipal bond insurance policy for each series of the Bonds (collectively, the "Policy") to insure the scheduled payment, when due, of principal and interest on the respective series Bonds. For additional information on the Bond Insurer, see "BOND INSURANCE" and "APPENDIX D – Specimen Municipal Bond Insurance Policy."

Liquidity Agreements. Upon the issuance of the Series 2005D Bonds, the Board, the Trustee and DEPFA BANK plc, acting through its New York Branch, (the "Series 2005D Initial Bank") will enter into a Standby Bond Purchase Agreement for the Series 2005D Bonds (the "Series 2005D Initial Liquidity Agreement"). Upon the issuance of the Series 2005E Bonds, the Board, the Trustee and Dexia Credit Local, acting through its New York Branch, (the "Series 2005E Initial Bank") will enter into a Standby Bond Purchase Agreement for the Series 2005E Bonds (the "Series 2005E Initial Liquidity Agreement" together with the Series 2005D Initial Liquidity Agreement, the "Initial Liquidity Agreements").

(The terms "Banks" or Initial Banks in this Official Statement refer to the Initial Banks during the period that the Initial Liquidity Agreements are in effect, and thereafter refer to each

provider of a Substitute Liquidity Facility at the time in effect). Purchases of Tendered Bonds (as herein defined) in the Daily Mode or Weekly Mode that are not remarketed by the Remarketing Agents (as defined herein) will be funded, subject to certain conditions described herein, under the Initial Liquidity Agreements. See "SERIES 2005D INITIAL LIQUIDITY AGREEMENT" and "SERIES 2005E INITIAL LIQUIDITY AGREEMENT." The Series 2005D Initial Liquidity Agreement and the Series 2005E Initial Liquidity Agreement expire on December 8, 2012, unless extended or terminated sooner in accordance with their respective terms. Under certain circumstances, the obligation of the Initial Banks to purchase Bonds under the Initial Liquidity Agreements will suspend or terminate immediately without notice or demand to any person. See "THE BONDS – Tenders – General", "SERIES 2005D INITIAL LIQUIDITY AGREEMENT" and "SERIES 2005E INITIAL LIQUIDITY AGREEMENT." The Board is not obligated to pay the purchase price of the Bonds upon tender hereof.

Under certain circumstances described below under "SUBSTITUTE LIQUIDITY FACILITIES," an Initial Liquidity Facility may be replaced by a Substitute Liquidity Facility supporting payment of the purchase price of tendered or deemed tendered Bonds (a "Substitute Liquidity Facility"). The delivery of a Substitute Liquidity Facility shall result in the mandatory tender of the respective series of Bonds. An Initial Liquidity Agreement and any related Substitute Liquidity Facility are referred to collectively in this Official Statement as a "Liquidity Facility." Also, under certain circumstances described herein and in the Indentures, the Board may terminate (with the prior written consent of the Bond Insurer) a then-current Liquidity Facility without delivering a Substitute Liquidity Facility. The termination of a Liquidity Facility under such circumstances shall result in the mandatory tender of the Bonds. See "THE BONDS – Tenders," "SERIES 2005D INITIAL LIQUIDITY AGREEMENT", "SERIES 2005E INITIAL LIQUIDITY AGREEMENT" and "SUBSTITUTE LIQUIDITY FACILITIES."

Remarketing Agents. Lehman Brothers, Inc. has been appointed as the initial Remarketing Agent for the Series 2005D Bonds, Loop Capital Markets, LLC has been appointed as the initial Remarketing Agent for the Series 2005E-1 Bonds and Morgan Stanley & Co. Incorporated has been appointed as the initial Remarketing Agent for the Series 2005E-2 Bonds. See "THE REMARKETING AGREEMENTS."

Other State Aid Obligations. Alternate Bonds payable from State Aid Revenues issued under the 2004 Authorization are currently outstanding and additional Alternate Bonds payable from State Aid Revenues issued under the 2004 Authorization may be issued in the future under other resolutions of the Board. See "SECURITY FOR THE BONDS – General" and "– General State Aid." The Board's Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004C, 2004D and 2004E are currently outstanding and also payable from State Aid Revenues issued under the 2004 Authorization.

THE BONDS

General

The Bonds initially will be dated their date of delivery and will mature on March 1, as set forth on the cover page hereof. The Bonds will be in a Daily Mode or a Weekly Mode (as described on the cover page) from the date of issuance and will bear interest at the applicable

Daily Rate or Weekly Rate until the Interest Mode is changed as described under the subcaption "-- Rate Periods and Modes." Thereafter, the Bonds may be converted to a Daily Mode, a Weekly Mode, a Flexible Mode, an Auction Rate Mode, a Term Rate Mode or a Fixed Mode. The Daily Mode, Weekly Mode and Flexible Mode (collectively, the "Short Mode") are described below. If any Bonds are converted to a Term Rate Mode, a Fixed Mode or an Auction Rate Mode, it is expected that the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in the Term Rate Mode, the Fixed Mode or the Auction Rate Mode.

The Bonds will be fully registered bonds and are issuable while in a Short Mode, in denominations of $100,000 and any integral multiple of $5,000 in excess thereof, each an "Authorized Denomination."

The Bonds initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York ("DTC"). Details of payments of the 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 and purchase price of, 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.

Rights of the Bond Insurer and the Bank

Each Indenture grants the Bond Insurer and the Banks certain approval, consent and waiver rights with respect to certain actions that the Board and the Bondholders are authorized to take under the related Indenture. See "APPENDIX B -- Summary of Certain Provisions of the Indenture."

Summary of Interest Modes

The pertinent provisions of the Daily Mode, the Weekly Mode and the Flexible Mode relating to the determination of interest rates and the payment of interest, changes in Interest Modes and rights of optional tender are summarized on the following chart:

	Daily Mode	Weekly Mode	Flexible Mode
Interest Payment Date	First Business Day of each month, each Adjustment Date and the Maturity Date; actual days elapsed over 365/366 day year	First Business Day of each month, each Adjustment Date and the Maturity Date; actual days elapsed over 365/366 day year	Each Rate Change Date on which on a succeeding Rate Period begins, the Adjustment Date at end of Flexible Mode and the Maturity Date; calculated on actual days elapsed over 365/366 day year
Interest Accrual	From Each Rate Change Date to but not including the next succeeding Business Day	From Each Rate Change Date to and including the day before the next succeeding Rate Change Date	From each Rate Change Date commencing a Flexible Period to and including the day immediately preceding the next succeeding Rate Change Date
Record Date	Business Day immediately preceding Interest Payment Date	Business Day immediately preceding Interest Payment Date	Business Day immediately preceding Interest Payment Date
Mode Adjustment Notice	Trustee to give Immediate Notice to owner not later than 15 days preceding Adjustment Date	Trustee to give Immediate Notice to owner not later than 15 days preceding Adjustment Date	None
Optional Tender Notice	Irrevocable written (may be by telecopy) tender notice to Trustee's Agent (initially, to Trustee) and the applicable Remarketing Agent; not later than 11:00 a.m., New York City time, on any Business Day	Irrevocable written tender notice to Trustee's Agent and the applicable Remarketing Agent not later than 4:00 p.m., New York City time, on any Business Day	None
Optional Tender Date	Business Day specified in Optional Tender Notice (day of Optional Tender Notice)	Business Day specified in Optional Tender Notice at least seven days after receipt of Optional Tender Notice	None
Rate Determination Date	By 9:30 a.m., New York City time, each Business Day	By 4:00 p.m., New York City time, each Wednesday or, if Wednesday is not a Business Day, the immediately preceding Business Day	By 1:00 p.m., New York City time, on the Rate Determination Date
Rate Change Date and Rate Period	Each Business Day; effective through but not including the immediately succeeding Rate Change Date	Generally Thursday through and including Wednesday of the following week, or such other day of the week designated as such by the applicable Remarketing Agent from time to time; effective through the next Rate Determination Date	The Business Day commencing the relevant Rate Period; Flexible Rate is effective through the day immediately preceding the next succeeding Rate Determination Date, which Rate Period is not less than 30 days (or such duration as short as one day as may be approved by the Board by written notice to the Trustee, the applicable Remarketing Agent) nor more than 396 days

Interest

Each Bond will bear interest from and including the date of initial issuance and delivery thereof. Interest on the Bonds in a Daily Mode or Weekly Mode will be payable on each Interest Payment Date therefor commencing January 3, 2006 for the period from the later of either (i) the first Business Day of each calendar month or (ii) the Adjustment Date for such Daily Mode or Weekly Mode to, but not including, the earlier of (a) the first Business Day of the next calendar month (b) the Adjustment Date for the Interest Mode which succeeds such Daily Mode or

Weekly Mode, as the case may be, or (c) the final Maturity Date; notwithstanding the foregoing, interest on Bonds authenticated prior to the first Interest Payment Date shall be payable on the first Interest Payment Date for the period from the Date of Issuance to, but excluding the first Interest Payment Date. Interest on each Bond in a Flexible Mode which is payable on each Interest Payment Date therefor (i.e., the Rate Change Date for such Bond) will be equal to the interest accrued thereon, at the Flexible Rate, from the previous Rate Change Date commencing the relevant Rate Period for such Bond to, but not including, the following Rate Change Date. Interest on Bonds which are Bank Bonds shall be payable on each Interest Payment Date for the period to, but not including, such Interest Payment Date from the preceding Interest Payment Date to which interest has been paid. The foregoing notwithstanding, no interest will accrue to a Bondholder on any Bond prior to its date of initial delivery or after the Maturity Date thereof, or after the redemption or mandatory or optional purchase date for such Bond (provided the redemption or purchase price is paid or provided for in accordance with the provisions of the Indenture), except that with respect to Tendered Bonds, interest shall accrue and be paid in accordance with the terms of the Indenture to subsequent owners of Tendered Bonds, and except that with respect to Bank Bonds, interest shall continue to accrue and be paid in accordance with the terms of the Liquidity Agreement.

The initial Interest Payment Date for the Bonds will be January 3, 2006. Thereafter, Interest Payment Dates will be (a) for each Bond, each Adjustment Date (including, without limitation, a proposed Term Rate Conversion Date or Fixed Rate Conversion Date) therefor, (b) for any Bond in the Daily Mode, the first Business Day of each calendar month, (c) for any Bond in the Weekly Mode, the first Business Day of each calendar month, (d) for any Bond in a Flexible Mode, each Rate Change Date therefor, (e) for any Bank Bond, such dates as are specified in the Liquidity Agreement, and (f) for each Bond, the Maturity Date thereof.

Interest Rate

The Bonds will bear interest, when in the Daily Mode, at the Daily Rate; when in the Weekly Mode, at the Weekly Rate; when in the Flexible Mode, at the Flexible Rate; and when Bank Bonds, at the Bank Rate. The determination of the interest rate on the Bonds as described herein will be conclusive and binding on the owner of the Bonds, the Trustee and the Board. At no time will the Bonds bear interest at a rate in excess of (i) the maximum rate permitted from time to time pursuant to applicable law, including the Bond Authorization Act of the State of Illinois, as amended, (ii) while the Bonds are in a Short Mode, the then-applicable Interest Coverage Rate, initially 15% per annum or (iii) in any event, 15%.

Daily Rate. No later than 9:30 a.m., New York City time, on each Business Day during a Daily Mode, the applicable Remarketing Agent will determine the Daily Rate for such Business Day. Such Daily Rate will be equal to the lowest interest rate which, in the judgment of the applicable Remarketing Agent, would enable each such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period. Except on an Adjustment Date, in the event that a Daily Rate is not determined by the applicable Remarketing Agent on a Rate Determination Date, the rate of interest borne by the Bonds bearing interest at a Daily Rate shall be equal to the rate in effect for the immediately preceding Rate Period for which a rate has been set until the applicable Remarketing Agent next

determines the Daily Rate as required under the Indenture. The Trustee will provide information regarding the Daily Rate to any Bondholder on written request.

Weekly Rate. No later than 4:00 p.m., New York City time, on Wednesday of each week, or such other day of the week designated as a Rate Determination Date by the applicable Remarketing Agent as described below, or if such day is not a Business Day, then the immediately preceding Business Day, the applicable Remarketing Agent will determine for the period commencing on the immediately succeeding Thursday and ending on the next succeeding Wednesday a fixed per annum interest rate to be borne by each Bond (which rate shall be the same for all Bonds of that series in the Weekly Mode) bearing interest at the Weekly Rate. Such Weekly Rate will be equal to the lowest interest rate which, in the judgment of the applicable Remarketing Agent, would enable each such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the immediately succeeding Rate Change Date (i.e., Thursday, or such other day of the week designated as the Rate Change Date by the applicable Remarketing Agent as described below). Except on an Adjustment Date, if the Weekly Rate is not determined by such applicable Remarketing Agent on a Rate Determination Date, the rate of interest borne by such Bonds bearing interest at the Weekly Rate shall be equal to the BMA Municipal Index until the Remarketing Agent next determines the Weekly Rate as required under the Indenture. See "THE BONDS -- Failure to Determine Interest Rate." The Trustee will provide information regarding the Weekly Rate to any Bondholder on written request.

If at any time the applicable Remarketing Agent determines, in its judgment, that the scheduled Rate Determination Dates or Rate Change Dates during a Weekly Mode have become inappropriate (taking into account general market practice with respect to periodic adjustment of rates on instruments comparable to the Bonds bearing interest at the Weekly Rate, whether based upon the time of compilation or reporting of any interest rate or financial index or indicator or otherwise), the applicable Remarketing Agent may, after consultation with the Board, designate new scheduled Rate Determination Dates and/or Rate Change Dates, to remain in effect until another redetermination of scheduled Rate Determination Dates or Rate Change Dates. The applicable Remarketing Agent shall give written notice of any change in scheduled Rate Determination Dates and/or Rate Change Dates during a Weekly Mode to the Trustee, the Bank, the Bond Insurer, the Trustee's Agent, if any, and the Board, and such change will become effective on the first scheduled Rate Determination Date or Rate Change Date, as the case may be, so designated occurring not less than 14 days following the giving of such notice. Promptly upon receipt of such notice, the Trustee shall notify or cause the applicable Remarketing Agent to notify each affected Bondholder of such change in writing.

Flexible Rate. No later than 1:00 p.m., New York City time, on the Rate Determination Date for a Bond bearing interest at the Flexible Rate, the applicable Remarketing Agent will determine (a) the duration of the Rate Period for such Bond by specifying the succeeding Rate Change Date (which shall also be the succeeding Rate Determination Date) for such Bond which Rate Change Date shall (i) be no later than the Business Day prior to the Stated Termination Date of the then-current Liquidity Facility and (ii) not extend beyond the number of days of interest coverage provided by the then-current Liquidity Facility, in either case, if a Liquidity Facility is required to be in place and (b) the Flexible Rate applicable to such Bonds bearing interest at the Flexible Rate during such Rate Period. The last day of such Rate Period must be a

Business Day and the day next succeeding such Business Day must also be a Business Day. The Flexible Rate will be a fixed per annum interest rate equal to the lowest interest rate which, in the judgment of the applicable Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period. Except on an Adjustment Date, in the event that the Flexible Rate for any Bond is not determined by the applicable Remarketing Agent on any Rate Determination Date, such Bond will bear interest at a Flexible Rate equal to the BMA Municipal Index for a Rate Period of the shortest possible duration authorized by the Indenture until the applicable Remarketing Agent next determines the Flexible Rate, as required under the Indenture. See "THE BONDS -- Failure to Determine Interest Rate."

A Rate Period during a Flexible Mode will have a duration which is not less than 30 days (or such duration as short as one day as may be approved by the Board pursuant to the Indenture) or more than 396 days. The applicable Remarketing Agent will determine the duration of Rate Periods during a Flexible Mode as will result, in the judgment of the applicable Remarketing Agent, in the lowest aggregate cost being payable by the Board with respect to the Bonds bearing interest at Flexible Rates, taking into account interest and any other determinable fees and expenses. The applicable Remarketing Agent may establish different Rate Periods on the same Rate Change Date for Bonds in the Flexible Mode in order to achieve an average duration of Rate Periods that, in the judgment of the applicable Remarketing Agent, is most likely to achieve the lowest total aggregate cost being payable by the Board with respect to such Bonds, taking into account interest and any other determinable fees and expenses. The applicable Remarketing Agent's determination shall be based upon the market for, and the relative yields of, the Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the judgment of the applicable Remarketing Agent, are otherwise comparable to the Bonds, or any fact or circumstance relating to the Bonds, affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the judgment of the applicable Remarketing Agent, will affect the market for the Bonds. The applicable Remarketing Agent's determination will be conclusive and binding upon all parties. The Trustee will provide information regarding the Flexible Rate and Rate Periods to any Bondholder on written request.

Rate Periods and Modes

All Bonds need not operate in the same Interest Mode at the same time. The Interest Modes are the Daily Mode, the Weekly Mode, the Flexible Mode, the Auction Rate Mode, the Term Rate Mode and the Fixed Mode. All Bonds of a series in the Daily Mode will bear interest at the same interest rate, and all Bonds of a series in the Weekly Mode will bear interest at the same interest rate. Bonds operating in the Flexible Mode may bear interest at different rates for different Rate Periods and at different rates for the same Rate Period.

Conversion to Short Mode. The Board may designate a different Interest Mode with respect to any Bond during a Flexible Mode on any Rate Change Date and during a Daily Mode or a Weekly Mode on any Business Day. The Board may select such subsequent Interest Mode and, within a Flexible Mode, the applicable Remarketing Agent may designate such Rate Periods from time to time, as will, in its judgment, result in the lowest aggregate cost being payable by the Board with respect to the Bonds bearing interest at a Flexible Rate, taking into account interest and any other determinable fees and expenses relating to such Bonds. The Board may

establish different Interest Modes and, within a Flexible Mode, the applicable Remarketing Agent may establish different Rate Periods, for Bonds on the same Adjustment Date in order to achieve an average duration of Rate Periods that, in the judgment of the applicable Remarketing Agent, is most likely to achieve the lowest total aggregate cost payable by the Board with respect to the Bonds, taking into account interest and any other determinable fees and expenses. The applicable Remarketing Agent's determination will be based upon the market for and the relative yields of the Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the judgment of the applicable Remarketing Agent, are otherwise comparable to the Bonds, or any fact or circumstance relating to the Bonds or affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the judgment of the applicable Remarketing Agent, will affect the market for the Bonds. The applicable Remarketing Agent, in its discretion, may consider such information and resources as it deems appropriate in making the determinations required by the Indenture, but the applicable Remarketing Agent's determination will be based solely upon the applicable Remarketing Agent's judgment, and the applicable Remarketing Agent's determination will be conclusive and binding upon all parties.

The foregoing notwithstanding, the Board may select any Interest Mode and, within a Flexible Mode, the applicable Remarketing Agent may designate any Rate Period which does not meet the foregoing standards, provided that such designation is accompanied by the written approval of the Board or an Opinion of Bond Counsel to the effect that such approval is not required for the continued validity and enforceability of the Bonds in accordance with their terms.

The Board will evidence each designation of a subsequent Interest Mode and Adjustment Date for the Bonds by giving written notice to the Trustee, the Trustee's Agent, if any, the Remarketing Agents, the Bank, the Bond Insurer and each Rating Service, specifying the Interest Mode or Modes in which such Bonds will operate during such Adjustment Period and the commencement date of such Adjustment Period; provided that (i) if such Adjustment Period is a Flexible Mode, the first day following each Rate Period therein must be a Business Day and (ii) not later than the 20th day prior to the Adjustment Date with respect to the new Adjustment Period, the Trustee must have received written evidence from each Rating Service that the then-current rating on such Bonds will not be reduced or withdrawn due to the conversion of such Bonds to the Flexible Mode. In addition, if a Liquidity Facility is required, the Liquidity Facility must provide enough days of interest coverage after the Adjustment Date as may be required by any Rating Service on the applicable series of Bonds to continue such rating.

Upon receipt of such notice from the Board, the Trustee, at least 15 days prior to each succeeding Adjustment Date, will give Immediate Notice to each owner of Bonds thereby affected bearing interest at a Daily Rate or a Weekly Rate of the mandatory tender for purchase of the affected Bonds on the Adjustment Date. See "-- Tenders -- Mandatory Tender."

Term Rate or Fixed Rate Conversion. On any Rate Change Date during a Flexible Mode, any Business Day during a Daily Mode or any Business Day during a Weekly Mode, at the direction of the Board, the interest rate to be borne by all or any portion of the Bonds in such Interest Mode may be converted to a Term Rate or a Fixed Rate, and such Bonds so converted thereafter will bear interest at such Term Rate or a Fixed Rate until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the Indenture.

Such direction of conversion will be accompanied by, among other things, (i) a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors to underwrite or purchase all Bonds which are to be converted on such Term Rate Conversion Date or Fixed Rate Conversion Date at a price of 100% of the principal amount thereof and (ii) an Opinion of Bond Counsel to the effect that such conversion (A) is authorized or permitted by the Indenture, (B) will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on the Bonds, and (C) will not have an adverse effect on the validity or enforceability of any Bond, all of which direction, certificate contract and opinion shall be received not less than 20 days prior to the Term Rate Conversion Date or Fixed Rate Conversion Date. The conversion of the interest rate borne by Bonds to a Term Rate or a Fixed Rate will not become effective unless prior to 11:00 a.m., New York City time, on the applicable Term Rate Conversion Date or Fixed Rate Conversion Date, the Trustee has received an Opinion of Bond Counsel, dated the applicable Term Rate Conversion Date or Fixed Rate Conversion Date, reaffirming its earlier opinion.

At least 15 days prior to the Term Rate Conversion Date or Fixed Rate Conversion Date, the Trustee will give or cause the applicable Remarketing Agent to give written notice of such election by the Board to the registered owners of all Bonds to be converted bearing interest at a Daily Rate or Weekly Rate, which notice will state (i) the Term Rate Conversion Date or the Fixed Rate Conversion Date and (ii) that such Bonds will be subject to mandatory purchase on such Term Rate Conversion Date or Fixed Rate Conversion Date. See "-- Tenders -- Mandatory Tender."

If the conversion of the interest rate on any Bond does not occur for any reason, including if any condition precedent to the conversion has not occurred, such Bond will bear interest from and after the proposed Term Rate Conversion Date or the Fixed Rate Conversion Date in the same Interest Mode as the Interest Mode applicable to such Bond prior to the proposed Term Rate Conversion Date or the Fixed Rate Conversion Date and at the interest rate as calculated in the manner set forth under the subcaptions "-- Interest" and "-- Interest Rate," above.

No Liquidity Facility is required for Bonds bearing interest at a Term Rate, Fixed Rate or an Auction Rate, so the amount of the Liquidity Facility, if any, may be (i) permanently reduced on or after the Term Rate Conversion Date with respect to Bonds bearing interest at a Term Rate or on or after the Fixed Rate Conversion Date with respect to Bonds bearing interest at the Fixed Rate and (ii) reduced, subject to the provisions of the Indenture with respect to subsequent conversions to a Short Mode and with respect to Bonds bearing interest at an Auction Rate, as provided in the Liquidity Facility.

Failure to Determine Interest Rate

If the applicable Remarketing Agent does not determine the interest rate applicable to the initial Rate Period during a new Interest Mode with respect to any Bond as described above under the subcaption "-- Rate Periods and Modes," the immediately succeeding Interest Mode with respect to the Bonds in the Interest Mode then ending will be a Weekly Mode with a Weekly Rate established by the applicable Remarketing Agent, or if such Remarketing Agent fails to set such interest rate, such Weekly Rate shall be equal to the BMA Municipal Index.

Liquidity Facility Not Required in Certain Circumstances

While any Bonds bear interest at a Daily Rate, Weekly Rate or Flexible Rate, such Bonds are required to have the benefit of a Liquidity Facility with respect to 100% of the outstanding principal amount of such Bonds unless, prior to the expiration or termination of the Liquidity Facility then in effect, there is delivered to the Board, the Remarketing Agents, the Bond Insurer, the Trustee and the Trustee's Agent: (i) an Opinion of Bond Counsel to the effect that the expiration or termination of the Liquidity Facility then in effect will not adversely affect the validity of the Bonds or any exclusion from gross income for Federal income tax purposes of interest on such Bonds, (ii) unless waived by the Bond Insurer, written evidence from each Rating Service that the ratings on such Bonds (other than Bonds in the Fixed Mode) following the expiration or termination of the Liquidity Facility will not be reduced or withdrawn from the rating on such Bonds immediately prior to such expiration or termination, and (iii) Bond Insurer Approval, as applicable. Bonds bearing interest at an Auction Rate, a Term Rate or at a Fixed Rate shall not be required to have the benefit of a Liquidity Facility.

Upon satisfaction of the requirements described in the paragraph above, (i) the Trustee, upon receipt of the written request of the Board, shall direct or send appropriate notice to the Bank requesting or directing the cancellation of the Liquidity Facility then in effect on the date (the "Liquidity Facility Cancellation Date") requested by the Board in such written request, which date may not be less than 30 days, or such longer period as is required by the Liquidity Facility for its termination at the request of the Board, from the date the Trustee receives such written request and (ii) following the date of such cancellation, all Tendered Bonds may be remarketed by the applicable Remarketing Agents pursuant to the respective Remarketing Agreements without the benefit of a Liquidity Facility until such time, if any, as the Bonds are thereafter entitled to the benefits of a Liquidity Facility pursuant to the provisions of the Indenture, but only if there is delivered to the Board, the Bond Insurer, the Trustee, the Trustee's Agent and applicable the Remarketing Agents an Opinion of Bond Counsel to the effect that the execution and delivery of the Liquidity Facility will not adversely affect the validity of the Bonds or any exclusion from gross income for Federal income tax purposes of interest on the Bonds. The Bonds bearing interest at a Short Rate are subject to mandatory tender on each applicable Liquidity Facility Cancellation Date as described below under the subcaption "--Tenders - Mandatory Tender."

Tenders

General. In certain circumstances as described above under the caption "THE BONDS - Liquidity Facility Not Required in Certain Circumstances," the Board is not required to maintain a Liquidity Facility for the purchase of Tendered Bonds prior to the Term Rate Conversion Date or Fixed Rate Conversion Date. In such circumstances, the Board may terminate a Liquidity Facility or permit a Liquidity Facility to expire, and the registered owners of the Bonds the purchase price of which is supported by such Liquidity Facility shall be entitled to have their Bonds purchased from funds made available under such Liquidity Facility prior to such termination or expiration. If a Liquidity Facility is not provided, thereafter funds for the purchase of Tendered Bonds must be provided by the Board from Pledged State Aid Revenues or other sources. Funds drawn under an Initial Liquidity Agreement may be used to pay the tender

price of Bonds the purchase price of which is supported by such Liquidity Agreement, but may not be used to pay principal of or interest on the Bonds when due.

The following information, including without limitation the manner of exercising mandatory and optional tender rights, is subject in its entirety to the provisions described below under the subcaption "-- Book Entry Only System - Optional and Mandatory Tenders" while the Bonds are in the Book-Entry Only System.

Immediate Termination of Obligation to Purchase Bonds Under the Series 2005D Initial Liquidity Agreement in Certain Circumstances.

WHILE THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT IS IN PLACE, UPON THE OCCURRENCE OF A SPECIAL LIQUIDITY DEFAULT (BEING A DEFAULT OF THE TYPE DESCRIBED IN CLAUSES (a), (b), (c)(i), (d) OR (e) UNDER THE CAPTION "SERIES 2005D INITIAL LIQUIDITY AGREEMENT – Liquidity Agreement Events of Default"), THE OBLIGATION OF THE BANK TO PURCHASE THE BONDS UNDER AN INITIAL LIQUIDITY AGREEMENT WILL TERMINATE IMMEDIATELY WITHOUT PRIOR NOTICE TO HOLDERS OF THE SERIES 2005D BONDS. WHILE THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT IS IN PLACE, UPON THE OCCURRENCE OF CERTAIN EVENTS, THE OBLIGATION OF THE SERIES 2005D BANK TO PURCHASE SERIES 2005D BONDS UNDER THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT WILL BE SUSPENDED IMMEDIATELY WITHOUT PRIOR NOTICE TO HOLDERS OF THE SERIES 2005D BONDS. IN EITHER SUCH EVENT, OWNERS OF ANY SUCH SERIES 2005D BOND TENDERED FOR PURCHASE WOULD NOT BE ENTITLED TO HAVE THEIR SERIES 2005D BONDS PURCHASED BY THE SERIES 2005D BANK FROM FUNDS MADE AVAILABLE UNDER THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT. See "-- Immediate Notice of a Special Liquidity Default under the Initial Liquidity Agreement," BELOW, AND "SERIES 2005D INITIAL LIQUIDITY AGREEMENT – Liquidity Agreement Events of Default" AND "-- Consequences of Events of Default," BELOW. THE BOARD AND THE BOND INSURER HAVE NO ENFORCEABLE OBLIGATION TO PURCHASE SERIES 2005D BONDS SUBJECT TO TENDER, PROVIDED THAT A DEFAULT IN THE PAYMENT OF TENDER PRICE CONSTITUTES A DEFAULT UNDER THE APPLICABLE INDENTURE. See "APPENDIX B -- Summary of Certain Provisions of the Indenture-- Events of Default."

UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT UNDER THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT OF THE TYPE DESCRIBED IN CLAUSES (f) or (l) UNDER THE CAPTION "SERIES 2005D INITIAL LIQUIDITY AGREEMENT – Liquidity Agreement Events of Default" THE SERIES 2005D BANK MAY TERMINATE ITS OBLIGATION TO PURCHASE SERIES 2005D BONDS BY GIVING WRITTEN NOTICE TO THE BOARD, THE TRUSTEE, THE APPLICABLE REMARKETING AGENTS AND THE BOND INSURER, SPECIFYING THE DATE ON WHICH ITS OBLIGATION TO PURCHASE SERIES 2005D BONDS SHALL TERMINATE, WHICH DATE SHALL NOT BE LESS THAN 20 DAYS FROM THE DATE OF RECEIPT OF SUCH NOTICE AND IN NO EVENT LATER THAN THE BUSINESS DAY PRIOR TO THE LAST DAY ON WHICH FUNDS WILL BE AVAILABLE UNDER A LIQUIDITY FACILITY AT A PURCHASE PRICE EQUAL TO 100% OF THE PRINCIPAL AMOUNT THEREOF PLUS ACCRUED

INTEREST, IF ANY, TO THE PURCHASE DATE. SUCH TERMINATION WILL RESULT IN A MANDATORY TENDER OF SERIES 2005D BONDS COVERED THEREBY, AS DESCRIBED BELOW. See "SERIES 2005D INITIAL LIQUIDITY AGREEMENT - Consequences of Events of Default" and "-- Immediate Notice of a Special Liquidity Default under the Initial Liquidity Agreement."

Immediate Termination of Obligation to Purchase Bonds Under the Series 2005E Initial Liquidity Agreement in Certain Circumstances.

WHILE THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT IS IN PLACE, UPON THE OCCURRENCE OF A SPECIAL LIQUIDITY DEFAULT (BEING A DEFAULT OF THE TYPE DESCRIBED IN CLAUSES (a), (b), (c) OR (k) UNDER THE CAPTION "SERIES 2005E INITIAL LIQUIDITY AGREEMENT -- Events of Default"), THE OBLIGATION OF THE SERIES 2005E BANK TO PURCHASE THE SERIES 2005E BONDS UNDER THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT WILL TERMINATE IMMEDIATELY WITHOUT PRIOR NOTICE TO HOLDERS OF THE SERIES 2005E BONDS. IN SUCH EVENT, OWNERS OF ANY SUCH SERIES 2005E BOND TENDERED FOR PURCHASE WOULD NOT BE ENTITLED TO HAVE THEIR BONDS PURCHASED BY THE SERIES 2005E BANK FROM FUNDS MADE AVAILABLE UNDER THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT. See "-- Immediate Notice of a Special Liquidity Default under the Initial Liquidity Agreements," BELOW, AND "SERIES 2005E INITIAL LIQUIDITY AGREEMENT -- Events of Default" AND "-- Consequences of Events of Default," BELOW. THE BOARD AND THE BOND INSURER HAVE NO ENFORCEABLE OBLIGATION TO PURCHASE SERIES 2005E BONDS SUBJECT TO TENDER, PROVIDED THAT A DEFAULT IN THE PAYMENT OF TENDER PRICE CONSTITUTES A DEFAULT UNDER THE APPLICABLE INDENTURE. See "APPENDIX C -- Summary of Certain Provisions of the Indentures -- Events of Default."

UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT UNDER THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT OF THE TYPE DESCRIBED IN CLAUSES (d) or (j) UNDER THE CAPTION "SERIES 2005E INITIAL LIQUIDITY AGREEMENT -- Events of Default" THE SERIES 2005E BANK MAY TERMINATE ITS OBLIGATION TO PURCHASE SERIES 2005E BONDS BY GIVING WRITTEN NOTICE TO THE BOARD, THE TRUSTEE, THE APPLICABLE REMARKETING AGENT AND THE BOND INSURER, SPECIFYING THE DATE ON WHICH ITS OBLIGATION TO PURCHASE SERIES 2005E BONDS SHALL TERMINATE, WHICH DATE SHALL NOT BE LESS THAN 20 DAYS FROM THE DATE OF RECEIPT OF SUCH NOTICE. SUCH TERMINATION WILL RESULT IN A MANDATORY TENDER OF SERIES 2005E BONDS COVERED THEREBY, AS DESCRIBED BELOW. See "SERIES 2005E INITIAL LIQUIDITY AGREEMENT -- Consequences of Events of Default" and "-- Immediate Notice of a Special Liquidity Default under the Series 2005E Initial Liquidity Agreement."

Optional Tender. Each owner of any Bond (other than a Bank Bond) during a Daily Mode or a Weekly Mode may demand that its Bond be purchased, in whole (or in part in an Authorized Denomination), on any Demand Date therefor at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Demand Date.

To effect such purchase during a Daily Mode, an owner must deliver to both the Trustee's Agent (initially, the Trustee) and the applicable Remarketing Agent irrevocable written notice (which written notice may be given by telecopy), which notice must be received not later than 11:00 a.m., New York City time, on a Business Day in order to be effective on that date. Any notice received after 11:00 a.m., New York City time, on a Business Day shall be deemed given on the next succeeding Business Day. The Business Day on which any such notice is deemed given will be the Demand Date for the applicable Tendered Bond (unless otherwise indicated in such notice). Such notice must specify (i) the principal amount and number of such Tendered Bond, the name and address of such owner and the taxpayer identification number, if any, of such owner and (ii) the Demand Date on which such Bond is to be purchased.

To effect such purchase during a Weekly Mode, an owner must deliver, on a Business Day, to the Trustee's Agent (initially, the Trustee) and the applicable Remarketing Agent irrevocable written notice (which may be given by telecopy), which notice must be received by the Trustee's Agent not later than 4:00 p.m., New York City time, on a Business Day in order to be effective on that day. Any notice received after 4:00 p.m., New York City time, on a Business Day shall be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Tendered Bond, the name and address of such owner and the taxpayer identification number, if any, of such owner and (ii) the Demand Date on which such Tendered Bond is to be purchased. Such Demand Date must be a Business Day not less than seven calendar days after the date such notice is received by the Trustee.

Bonds in a Flexible Mode are not subject to optional tender.

Mandatory Tender. Bonds (other than those described below) are subject to mandatory tender by the owners thereof to the Trustee at its principal office on each date described below at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, to the purchase date therefor (unless purchased on an Interest Payment Date):

(i) with respect to any Bond (other than a Bank Bond) bearing interest at a Flexible Rate, on each Rate Change Date for such Bond other than the Rate Change Date which is the first day of the Flexible Mode applicable to such Bond;

(ii) on each Adjustment Date, including, without limitation, a proposed Term Rate Conversion Date, Fixed Rate Conversion Date or a Substitute Adjustment Date applicable to any Bonds (other than a Bank Bond) which are proposed to be converted to a different Interest Mode;

(iii) while a Liquidity Facility is required, on a Business Day no more than 15 days after the Trustee gives Immediate Notice: (A) to the owners of Series 2005D Bonds (and in no event later than the Business Day prior to the last day on which funds will be available under the Liquidity Facility) of the occurrence and continuation of a default of the type described in clauses (d) and (j) under the caption "SERIES 2005D INITIAL LIQUIDITY AGREEMENT - Events of Default" or (B) to the owners of Series 2005E Bonds (and in no event later than the Business Day prior to the last day on which funds will be available under the Liquidity Facility) of the occurrence and continuation of a default of the type

described in clauses (a) and (h) under the caption "SERIES 2005E INITIAL LIQUIDITY AGREEMENT - Events of Default"

(iv) (a) on the Business Day immediately preceding the Stated Termination Date of a Liquidity Facility if (1) a Liquidity Facility is required to be in effect, and (2) by the 15th day preceding a Stated Termination Date, a notice of extension of the current Liquidity Facility or a commitment to deliver a Substitute Liquidity Facility has not been delivered or (b) on the Business Day immediately preceding the Liquidity Substitution Date if a Liquidity Facility is required to be in effect,

(v) on the Business Day prior to the Liquidity Facility Cancellation Date, if a Liquidity Facility is no longer required pursuant to the Indenture; and

(vi) on the Business Day next preceding a Bond Insurance Substitution Date applicable to such Bonds.

In the case of clauses (i) and (ii) above, the Bonds that are the subject of such events are subject to mandatory tender. In the case of clauses (iii), (iv), (v) and (vi), all Bonds are subject to mandatory tender (except to the extent set forth in clause (iv)). An owner of a Bond subject to mandatory tender may not elect to retain its Bonds.

No notice will be given for a mandatory tender described in clause (i) above of Bonds bearing interest at a Flexible Rate.

With respect to a mandatory tender described in clause (ii) above of Bonds bearing interest at a Daily Rate or a Weekly Rate, not later than the 15th day next preceding the Adjustment Date with respect thereto, the Trustee is required to give Immediate Notice to the owners of such Bonds stating the last day of the Adjustment Period then ending and that such Bonds are required to be purchased on such Adjustment Date.

With respect to a mandatory tender described in clause (iii) above, all Bonds are required to be purchased on a Business Day designated in the Immediate Notice referred to in clause (iii), no more than 15 days after the date of such Immediate Notice and at least one Business Day prior to the last day on which funds will be available under such Liquidity Facility.

With respect to a mandatory tender described in clause (iv)(a) above, not later than the 15th day preceding the Stated Termination Date of the Liquidity Facility, if no extension of such Liquidity Facility or no commitment to issue a Substitute Liquidity Facility has been delivered, the Trustee shall give Immediate Notice to the owners of the applicable Bonds and the Bond Insurer stating (i) the Stated Termination Date, (ii) that no Substitute Liquidity Facility has been received as of the date of such notice and (iii) that such Bonds are required to be purchased on the Business Day immediately preceding the Stated Termination Date.

With respect to a mandatory tender described in clause (iv)(b) or (vi) above, not later than the 15th day preceding a Liquidity Substitution Date or a Bond Insurance Substitution Date, the Trustee shall give Immediate Notice to the owners of the applicable Bonds stating (i) the Liquidity Substitution Date or the Bond Insurance Substitution Date and (ii) such Bonds are

required to be purchased on the Business Day prior to the Bond Insurance Substitution Date or the Liquidity Substitution Date.

With respect to a mandatory tender described in clause (v) above, not later than the 15th day preceding the Liquidity Facility Cancellation Date, the Trustee shall give Immediate Notice to the owners of Bonds and the Bond Insurer stating (i) that the existing Liquidity Facility is to be canceled pursuant to the Indenture and (ii) such Bonds are required to be purchased on the Business Day prior to the Liquidity Facility Cancellation Date.

IF THE OBLIGATION OF THE BANK TO PURCHASE BONDS UNDER ITS LIQUIDITY FACILITY HAS BEEN TERMINATED PRIOR TO, OR THE CONDITIONS TO SUCH OBLIGATION ARE NOT SATISFIED AS OF THE DATE ON WHICH THE PAYMENT OF THE PURCHASE PRICE OF SUCH BONDS IS REQUIRED, FUNDS TO PAY SUCH PURCHASE PRICE WILL NOT BE AVAILABLE UNDER SUCH LIQUIDITY FACILITY, EVEN IF SUCH TERMINATION WERE TO OCCUR SUBSEQUENT TO, OR THE CIRCUMSTANCES GIVING RISE TO THE FAILURE TO SATISFY SUCH CONDITIONS WERE TO OCCUR PRIOR OR SUBSEQUENT TO, THE DATE ON WHICH NOTICE OF MANDATORY TENDER IS GIVEN TO BONDHOLDERS.

Purchase of Tendered Bonds. Tendered Bonds will be purchased from the following sources in order of priority indicated:

(i) proceeds from the remarketing of Tendered Bonds pursuant to the applicable Remarketing Agreements;

(ii) moneys received from the underwriter or purchaser (other than the Board) of Tendered Bonds upon the conversion of the interest rate thereon to a Term Rate or a Fixed Rate;

(iii) proceeds of the respective Liquidity Facility, to the extent a Liquidity Facility is available; and

(iv) moneys furnished by the Board to the Trustee for the optional purchase or the optional purchase and cancellation of Tendered Bonds pursuant to the Indenture.

The Trustee's Agent is required to pay the purchase price of each Tendered Bond to the registered owner thereof by 3:00 p.m., New York City time, on the purchase date, provided that such owner has delivered such Tendered Bond with any necessary endorsements to the principal corporate trust office of the Trustee's Agent no later than 1:00 p.m., New York City time, on such date. If funds from the sources identified above shall not be available to purchase a Tendered Bond, the owner shall continue to hold such Bond and it shall bear interest, commencing on the date on which such Bond was tendered for purchase, at an interest rate equal to the lesser of (i) the BMA Municipal Index or (ii) the Maximum Interest Rate. Neither the Board nor the Bond Insurer is obligated to pay the purchase price of the Bonds.

Undelivered Tendered Bonds. If sufficient moneys are on deposit with the Trustee to pay the applicable purchase price of any Tendered Bond, such Tendered Bond will be deemed to have been purchased whether or not delivered by the owner thereof on the date such Tendered

Bond is to be purchased. If any such purchased Tendered Bond is not so delivered, the Board shall execute and the Trustee will authenticate and deliver a replacement Bond of like date, Maturity Date and denomination as the Tendered Bond and bearing a number not contemporaneously outstanding.

Remarketing of Bank Bonds

Bank Bonds, when remarketed, shall be purchased at a price equal to the principal amount thereof plus accrued interest, if any, thereon at the Bank Variable Rate until the Bond Sale Date; accrued interest on Bank Bonds at the Differential Interest Amount (the difference between the Bank Rate and the Bank Variable Rate) shall be due to the Bank from the Board on the Bond Sale Date. Purchasers of Bank Bonds will receive, on the next Interest Payment Date thereon following purchase, interest at the applicable rate thereon from the purchase thereof plus the accrued interest paid thereon at the date of purchase; such interest payment on the Bonds is insured under the Bond Insurance Policy.

Immediate Notice of a Special Liquidity Default under the Initial Liquidity Agreement

The Trustee is required to give Immediate Notice to the owners of the Bonds and the Remarketing Agents (with a copy to the Bond Insurer) of the receipt of a written notice of the occurrence of a Special Liquidity Default under the respective Initial Liquidity Agreement. Such notice shall state that the Bonds are not subject to mandatory tender as a result of the occurrence of such Special Liquidity Default, that such Bonds no longer will be entitled to the benefits of such Liquidity Agreement and all rights of such owners to tender Bonds for purchase are suspended until such time that the Special Liquidity Default is cured and the obligation of the respective Bank to purchase such Bonds pursuant to the Liquidity Agreement has been reinstated or that a Substitute Liquidity Agreement is in place. If Immediate Notice of a mandatory tender has been given due to receipt by the Trustee of written notice from the respective Bank of the occurrence of a Liquidity Agreement Default but a Special Liquidity Default occurs prior to the mandatory tender date, the Trustee must give Immediate Notice of such Special Liquidity Default to the owners of all the Bonds of such series and the respective Remarketing Agents as described above and such Bonds shall not be subject to mandatory tender on such date.

Redemption

Optional Redemption During Daily Mode. During any Daily Mode, the Bonds in such Mode are subject to redemption prior to their Maturity Date, at the option of the Board, in whole or in part (and if in part in an Authorized Denomination) on any Business Day during such Daily Mode, as applicable, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Optional Redemption During Weekly Mode. During any Weekly Mode, the Bonds in such Mode are subject to redemption prior to their Maturity Date, at the option of the Board, in whole or in part (and if in part in an Authorized Denomination) on any Business Day during such Weekly Mode, as applicable, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Optional Redemption During Flexible Mode. During any Flexible Mode, the Bonds in such Mode are subject to optional redemption prior to their Maturity Date, at the option of the Board, in whole or in part (and if in part in an Authorized Denomination) on any Rate Change Date therefor, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds of each series (including Bank Bonds) are subject to mandatory sinking fund redemption prior to their Maturity Date at a redemption price equal to 100% of the principal amount thereof plus accrued interest, on March 1 in the years and in the amounts set forth below:

Series 2005D-1 Bonds

Year	Principal Amount
2007	$5,625,000
2008	5,890,000
2009	6,165,000
2010	6,450,000
2011	6,750,000
2012(final maturity)	7,065,000

Series 2005D-2 Bonds

Year	Principal Amount
2026	$ 4,775,000
2027	12,715,000
2028	13,215,000
2029	13,740,000
2030	14,280,000
2031	14,845,000
2032	15,430,000
2033	16,040,000
2034	16,670,000
2035	17,330,000
2036 (final maturity)	18,015,000

Series 2005E-1 Bonds

Year	Principal Amount
2013	$3,700,000
2014	3,840,000
2015	3,995,000
2016	4,150,000
2017	4,320,000
2018	4,485,000
2019	4,665,000

2020	4,845,000
2021	5,045,000
2022	5,240,000
2023	5,445,000
2024	5,660,000
2025	5,885,000
2026 (final maturity)	3,725,000

Series 2005E-2 Bonds

Year	Principal Amount
2013	$3,695,000
2014	3,845,000
2015	3,995,000
2016	4,155,000
2017	4,315,000
2018	4,490,000
2019	4,665,000
2020	4,850,000
2021	5,035,000
2022	5,240,000
2023	5,445,000
2024	5,660,000
2025	5,880,000
2026 (final maturity)	3,730,000

Redemption Procedures. Any redemption of less than all of the Bonds Outstanding will be made (i) first, from Bank Bonds then Outstanding and (ii) next, from the Bonds of such series as the Board shall designate. No optional redemption of less than all of the Bonds outstanding will be made unless the aggregate principal amount of Bonds to be redeemed is equal to $100,000 or integral multiples thereof. Any redemption of less than all of the Bonds outstanding will be made in such a manner that all Bonds outstanding after such redemption are in Authorized Denominations.

If less than all of the Bonds are called for redemption under provisions of the Indenture permitting or requiring partial redemption, the particular Bonds (or portions thereof), to be redeemed will be selected by the Board and designated to the Trustee, in the principal amount and particular series designated by the Board, which designation is required to include the Interest Mode and particular Maturity Date of Bonds to be redeemed, or as otherwise required by the Indenture; provided that (i) in the case of the redemption of less than all of the Bonds which bear interest in the same Interest Mode at the same rate for the same Rate Periods, such redemption will be by lot in such manner as the Trustee may determine among such Bonds and (ii) subject to other applicable provisions of the Indenture, the portion of any Bond to be redeemed will be in a principal amount equal to an Authorized Denomination. In selecting Bonds for redemption, the Trustee will treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination. If it is determined that one or more, but not all, of the integral multiples of the

Authorized Denomination of principal amount represented by any Bond is to be called for redemption, then, upon notice of intention to redeem such integral multiple of an Authorized Denomination, the owner of such Bond is required to surrender such Bond to the Trustee for payment to such owner of the redemption price of the integral multiple of the Authorized Denomination of principal amount called for redemption; the Trustee will deliver to such owner a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal amount of such Bond. New Bonds representing the unredeemed balance of the principal amount of such Bond will be issued to the registered owner thereof without charge therefor.

Should the Trustee have knowledge of an Event of Default under the Indenture, there shall be no partial redemption of the Bonds other than the mandatory sinking fund redemptions described above.

Notice of Redemption. For a description of the giving of notices while the Bonds are in the book-entry only system, see "-- Book-Entry Only System," below. Whenever Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds, which notice shall specify among other things, the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice. Except as provided in the next sentence, notice of the redemption of Bonds will be given by first class mail, postage prepaid, or by facsimile transmission not less than 30 days prior to the redemption date, to the registered owners of the Bonds to be redeemed at their addresses as shown on the Bond Register. Prior to the date that the redemption notice is first given as aforesaid, funds shall be placed with the Trustee to pay such Bonds, any premium thereon, and accrued interest thereon to the redemption date, or (except in the case of a mandatory sinking fund redemption) such notice shall state that any redemption is conditional on such funds being deposited on the redemption date, and that failure to deposit such funds shall not constitute an Event of Default under the Indenture. Additional redemption notices will be provided to Bondholders who fail to present their Bonds in a timely manner as provided in the Indenture. Failure to give notice in the manner described above or a defect in the notice as to any Bond will not affect the validity of any proceedings for redemption as to any Bond for which notice is properly given. Interest will not accrue after the redemption date on any Bond called for redemption if notice has been given and if sufficient moneys have been deposited with the Trustee to pay principal of, premium, if any, and interest on such Bonds to the redemption date.

Bond Registration and Transfers

For a description of the procedure to transfer ownership of a Bond while in the book-entity 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). Prior to the Term Rate Conversion Date or the Fixed Rate Conversion Date, 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, except that the Board and the Trustee shall be required to issue or register the transfer of Tendered Bonds after such date of mailing of notice or redemption.

Book-Entry Only System

General. The following information concerning The Depository Trust Company, New York, New York, ("DTC") has been furnished by DTC for use in this Official Statement. Neither the Board nor the Underwriters are responsible for its accuracy or completeness.

DTC will act as securities depository for the 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. See "THE BONDS - General" and "–Global Book-Entry System – *Revision of Global Book-Entry System*."

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, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC.

DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or its Agent 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, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 securities 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 securities 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 INDENTURES; 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.

Optional and Mandatory Tenders. As described above under the subcaptions "-- Summary of Interest Modes" and "-- Tenders," the Owner of a Bond in a Daily Mode or a Weekly Mode may require the purchase of its Bond. While the Bonds are in the Book-Entry Only System, a beneficial owner (a) must give its tender notice to the Trustee's Agent and the applicable Remarketing Agent (pursuant to DTC's Deliver Order procedures, so long as DTC is Securities Depository for the Bonds) by telephone (promptly confirmed in writing) or in writing, and (b) must effect delivery of such Bond by causing its Participant to transfer the Participant's interest in the Bond so tendered for purchase on DTC's records. The requirement for physical delivery of a Bond in connection with a beneficial owner's election to tender its Bonds for purchase or a mandatory purchase of such beneficial owner's Bond is deemed satisfied when the

ownership rights in the Bonds are transferred by the Participant on DTC's records to the applicable Remarketing Agent or otherwise transferred to the satisfaction of the Trustee.

Effect on Bonds of Discontinuance of Book-Entry System. The following three paragraphs apply to the Bonds when not in the Book-Entry System:

Principal of Bonds bearing interest at a Daily Rate, a Weekly Rate, or a Flexible Rate will be payable upon the presentation and surrender thereof at the principal corporate trust office of the Trustee. The purchase price of Bonds upon optional or mandatory tender will be payable upon the presentation and surrender thereof at the principal corporate trust office of the Trustee's Agent or at such other office as may be designated by the Trustee.

Payment of interest on Bonds bearing interest at a Daily Rate or a Weekly Rate is payable by a check mailed on the applicable Interest Payment Date to the registered owner thereof as of the close of business of the Trustee on the Record Date at the address of such owner as it appears on the Bond Register or at such other address as is furnished to the Trustee in writing by such owner not later than the Record Date. Payment of interest on Bonds bearing interest at a Flexible Rate shall be made to the registered owner thereof as of the close of business of the Trustee on the Record Date upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date. Payment of interest on any Bonds shall be made to any registered owner of $1,000,000 or more aggregate principal amount of Bonds as of the close of business of the Trustee on the Record Date for a particular Interest Payment Date by wire transfer to such registered owner on such Interest Payment Date upon written notice from such registered owner containing the wire transfer address within the United States of America to which such registered owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date, provided that such wire transfer only shall be made for Bonds bearing interest at the Flexible Rate, upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date.

Notwithstanding the foregoing, payment of Defaulted Interest on Bonds will be made to the persons who shall be the registered owners thereof on the Special Record Date fixed by the Trustee which shall be not more than 15 or less than 10 days prior to the date of the proposed payment of such Defaulted Interest, which shall not be less than 10 days after receipt by the Trustee of the notice of the proposed payment.

Sources and Uses of Funds

The following table shows the sources and uses of funds in connection with the issuance of the aggregate principal amount of the Bonds:

Sources:	
Proceeds of the Bonds	$325,000,000.00
Board Deposit	20,660,688.19
Total Sources of Funds	$345,660,688.19
Uses:	
Deposit to the Project Fund	$322,791,529.22
Deposit to Interest Deposit Sub-Account[1]	2,817,070.25
Deposit to Deposit Sub-Account[2]	17,843,617.94
Costs of Issuance [3]	2,208,470.78
Total Uses of Funds	$345,660,688.19

[1] Represents the amount of the Board Deposit which is sufficient to pay debt service on the Bonds to and including March 1, 2006.

[2] Represents the amount of the Board Deposit which is sufficient to satisfy the Pledged State Aid Revenues Account Requirement for the Bond Year commencing on March 2, 2006.

[3] Includes the Underwriter's discount, rating agency, legal and accounting fees, the commitment fees for the Liquidity Facilities, the premium for the Policy and other costs incurred in connection with the issuance of the Bonds.

SECURITY FOR THE BONDS

General

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

The Bonds will be payable from and secured by a pledge of (i) that amount of payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future ("State Aid Revenues"), not in excess of amounts available under the 2004 Authorization in any year, as shall provide for the payment of annual debt service on the Bonds, any Swap Payments and the provision of not less than an additional .10 times annual debt service on the Bonds in such year (the "Pledged State Aid Revenues"), (ii) the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indentures as security for the Bonds (the "Pledged Taxes"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indentures, 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 Indentures. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged State Aid Revenues are not available in sufficient amounts to pay the debt service on the Bonds.

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

General State Aid

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

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

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

The GSA formula was significantly amended in 1997 (the "1997 Amendments"). As a result, the minimum or "foundation level" of GSA per pupil was $4,425 in fiscal year 2001, $4,560 in fiscal year 2002, remained at $4,560 in fiscal year 2003, $4,810 in fiscal year 2004 and $4,964 in fiscal year 2005. In subsequent years, this "foundation level" will be set by the General Assembly, with advice from a funding advisory board.

Legislation adopted in 1999 by the General Assembly increased GSA funding for school districts that would otherwise experience a decrease in this funding because of increases in equalized assessed valuation of real property. In addition, the General Assembly increased the

per pupil amount of the low-income student grant for low-income students, which is based on the low-income student count prepared by the Bureau of Census. As a result, the per pupil amount of the low-income student grant that applies to the Board was $1,273 for fiscal year 2001, $1,333 for fiscal year 2002, $1,362 for fiscal year 2003, $1,230 for fiscal year 2004 and $1,264 for fiscal year 2005. The lower per-pupil amount in fiscal year 2004 reflects the new poverty grant formula adopted in May 2003.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 1996 through 2005, the required contributions for Supplemental General State Aid allocations to individual schools, and the net amount available for deposit into the General Fund.

GENERAL STATE AID
Fiscal Years 1996 - 2005
(Dollars in Millions)

Fiscal Year	Total GSA Claim[1]	Supplemental General State Allocation	Unrestricted GSA General Fund Deposit[2]
1996	501.7	261.6	240.1
1997	503.3	261.2	242.1
1998	567.7	261.2	306.5
1999	706.2	261.3	444.9
2000	711.1	261.0	450.1
2001	730.4	261.0	469.4
2002	801.8	261.0	540.8
2003	786.9	261.0	525.9
2004	853.5	261.0	592.5
2005	926.7	261.0	665.7

(1) Source: Illinois State Board of Education. Net of Illinois State Board of Education audit adjustments.
(2) Reflects moneys available to fund Pledged Series 2005D and Series 2005E State Aid Revenues and pledges of State Aid Revenues made in connection with other obligations of the Board.

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

Illinois law further specifies that whenever new property is added to a school district's tax base, adjustments are to be made to that school district's GSA. As of today, as a general matter under the law, the Board will experience a $3 decrease in GSA for every $100 of adjusted equalized assessed valuation (the "AEAV") resulting from the addition of new property to its tax base (the "New AEAV"). However, given the Board's current operating tax rate, the Board could offset this decrease and receive approximately $3.05 in additional real estate taxes for every $100 of New AEAV, provided that the Board elects to apply its full, current operating tax rate to the New AEAV in the year in which it becomes available.

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

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

Pledged Taxes

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

Debt Service Funds and Accounts

The Indenture establishes the Debt Service Fund as a separate fund pledged to the payment of debt service on the Bonds. The Indenture also establishes four separate accounts in the Debt Service Fund, known as the "Pledged State Aid Revenues Account," the "Pledged Taxes Account," the "Bond Payment Account" and the "Swap Payment Account." The Pledged State Aid Revenues Account consists of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account further consists of the Interest Deposit Sub-Account and the Pledged State Aid Revenues Sub-Account. The Bond Payment Account consists of the Interest Sub-Account and the Principal Sub-Account.

The Trustee will deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Trustee from time to time with instructions for deposit into such Sub-Account, including such portion of the funds deposited by the Board upon the delivery of the Bonds, and (ii) any payments made by the swap providers under 2005D Swap Agreement.

Amounts so deposited to the credit of the Interest Deposit Sub-Account will be transferred to the Interest Sub-Account and applied to pay interest on the Bonds as it becomes due on each Interest Payment Date as described below under "- Payment of Debt Service on the Bonds and Swap Payments."

Application of Pledged State Aid Revenues; Abatement of Pledged Taxes

On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes described below (each such date being referred to as a "Deposit Date"), the Board shall deposit to the credit of the Pledged State Aid Revenues Account such amounts derived from Pledged State Aid Revenues as shall be necessary to cause the amount on deposit in said Account to equal the then-applicable Pledged State Aid Revenues Account Requirement.

The Pledged State Aid Revenues Account Requirement is determined as follows:

(i) on each Deposit Date, with respect to the Bonds bearing interest at a Short Rate (or an ARS Rate), an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an interest rate equal to the greater of (1) 4.5% or (2) the actual weighted average interest rate borne by such Bonds for the 12-month period ending on the preceding February 1; provided that such amount shall be increased or decreased, as appropriate, giving effect to the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect, (B) if no Swap Agreement is in place, the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date for which the Interest Payment Date occurs in the next succeeding Bond Year from the first day of the Rate Period for such Bonds to the last day of the then-current Bond Year, and (C) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year;

(ii) on each Deposit Date, with respect to Bonds bearing interest at a Term Rate or Fixed Rate, an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and the actual Term Rate or Fixed Rate or Term Rates or Fixed Rates then borne by such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring

the Board to pay a variable rate of interest, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds pursuant to subparagraph (i)(A) above, treating the Swap Agreement as the Bonds for the purpose of subclause (2) above, and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year; and

(iii) on each Deposit Date, with respect to any Bank Bonds, an amount equal to the sum of (A) one year's interest on such Bank Bonds based upon the aggregate principal amount of such Bank Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an assumed interest rate equal to the greater of (i) 8.00% or (ii) the average Bank Rate for the 12-month period ending on the preceding February 1 (regardless of whether Bank Bonds are Outstanding during such period) and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year.

Once such deposit has been made satisfying the then-applicable Pledged State Aid Revenues Account Requirement, the Board shall, pursuant to the Indenture, take such actions as are necessary to abate in full the Pledged Taxes levied to otherwise provide funds for the payment of the debt service on the Bonds.

In the event that on any Deposit Date there has been deposited to the credit of the Pledged State Aid Revenues Account an insufficient amount to satisfy the then-applicable Pledged State Aid Revenues Account Requirement, the Board shall, pursuant to the Indenture, take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged State Aid Revenues Account, to provide the funds necessary to satisfy such Pledged State Aid Revenues Account Requirement. The Board has covenanted in the Indenture to take all action necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied to pay debt service of the Bonds.

If at any time while the Bonds bear interest at a Short Rate (or an ARS Rate), the amount on deposit in the Pledged State Aid Revenues Sub-Account shall be insufficient to provide for the payment in full of (i) the principal of and interest on the Bonds and (ii) the Swap Payments to become due during the then-current Bond Year, the Board shall promptly deposit moneys derived from Pledged State Aid Revenues into the Pledged State Aid Revenues Sub-Account in such amounts as shall be necessary to cause the amount on deposit in the Pledged State Aid Revenues Sub-Account to be sufficient to pay (1) the interest to accrue on the Bonds for the remainder of the then-current Bond Year based on the aggregate principal amount of Bonds then Outstanding and an assumed interest rate equal to the average rate on the Bonds for the period commencing on March 2 of the then-current Bond Year and ending on the Business Day immediately preceding such date of calculation, (2) the principal amount of Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the then-current Bond Year and (3) the Swap Payments scheduled to become due during the then-current Bond Year.

Payment of Debt Service on the Bonds and Swap Payments

The Trustee shall transfer first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Interest Deposit Sub-Account, and last from moneys on deposit in the Pledged State Aid Revenues Sub-Account (i) to the Interest Sub-Account of the Bond Payment Account on or before each Interest Payment Date for any of the Outstanding Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) to the Principal Sub-Account of the Bond Payment Account on or before each March 1, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on such date; and (iii) to the Principal Sub-Account of the Bond Payment Account on or before each March 1 on which Bonds are subject to mandatory sinking fund redemption pursuant to the Indenture, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed.

After deducting the amount required to be transferred to the Principal Sub-Account on the next succeeding March 1 and provided the Board is not in default with respect to the payment of interest on the Bonds, there shall be transferred into the Swap Payment Account on each March 1 and September 1, or such other dates specified in the Swap Agreement which the Board shall identify in a written notice delivered to the Trustee (each, a "Swap Payment Date") first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Interest Deposit Sub-Account, and last from the Pledged State Aid Revenues Sub-Account, an amount equal to the sum of the Swap Payments then owing under the Swap Agreement on such Swap Payment Date. The Trustee shall pay each Swap Provider on each Swap Payment Date from amounts then on deposit in the Swap Payment Account pursuant to payment instructions specified in the Swap Agreement and provided to the Trustee and the Board by such Swap Provider. On or prior to March 1, 2006 and each March 1 thereafter, the Board shall provide the Trustee with written notice of the amount of each Swap Payment owing to the Swap Provider on each Swap Payment Date for the succeeding Bond Year. The Board shall promptly notify the Trustee in writing if the amount of any Swap Payment shall change from the amount identified in such notice. Notwithstanding anything in the Indenture to the contrary, all payments of Swap Payments to be paid from Pledged Taxes shall be subordinate to the payment of principal of and interest on the Bonds and all payments of Swap Payments to be paid from Pledged State Aid Revenues shall be subordinate to the payment of principal of and interest on the Bonds and any Additional Bonds.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on March 1 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture.

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds (excluding any Bond Purchase Funds and Rebate Funds), Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds. See APPENDIX B – "Summary of Certain Provisions of the Indenture."

Additional Obligations Payable From Pledged State Aid Revenues

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

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

Bonds Are Obligations of the Board

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

Rights of the Bond Insurer

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the sole owner of Series 2005D and Series 2005E Bonds insured under the Bond Insurance Policy for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

BOND INSURANCE

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

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc., referred to in this Official Statement as the Insurer or CIFG, for inclusion in this Official Statement.

General

CIFG Assurance North America, Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York (the "Insurer"). The address of the principal executive offices of the Insurer is 825 Third Avenue, Sixth Floor, New York, New

York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939.

The Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer's New York statutory capital and surplus at no less than $80 million, and may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of "AAA" from Fitch, an insurer financial strength rating of "Aaa" from Moody's, and an insurer financial enhancement rating of "AAA" from Standard and Poor's, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency's current assessment of each company's capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 44 jurisdictions. The Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

Capitalization. The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States ("US GAAP") and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	US GAAP December 31, 2004 (in thousands of US dollars)
Total Assets	$ 246,767
Total Liabilities	$ 117,368
Shareholder's Equity	$ 129,399

	Statutory Accounting Practices December 31, 2004 (in thousands of US dollars)
Admitted Assets	$ 152,361
Liabilities	$ 38,733
Capital and Surplus	$ 113,628

The following table sets forth the capitalization of CIFG Guaranty on the basis of US GAAP.

	US GAAP December 31, 2004	
	(in thousands of euros)	(in thousands of US dollars) (1)
Assets	€ 621,431	$ 847,632
Liabilities	€ 107,816	$ 147,061
Shareholder's Equity	€ 513,615	$ 700,571

(1) The translation of euros into dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2004 of $1.364 to €1.00.

For further information concerning the Insurer and CIFG Guaranty, see the audited financial statements of both companies, including the respective notes thereto, prepared in accordance with US GAAP as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, and the unaudited interim financial statements of the Insurer as of September 30, 2005 and for the nine-month period ended September 30, 2005, which are available on the CIFG Group's website at www.cifg.com. Copies of the most recent audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

SUBSTITUTE BOND INSURANCE

The Indentures provide that if the rating of the Bond Insurer shall be lowered by any two of the Rating Services below the top two rating categories assigned by such rating agencies (without giving effect to numeric or other qualifiers), the Board may, at its option but only with the written consent of the respective Bank(s), and shall upon receipt of a written request from the respective Initial Bank(s) use all reasonable efforts to obtain a Substitute Bond Insurance Policy, provided that the Board shall have first obtained (a) an Opinion of Bond Counsel to the effect that such substitution is authorized under, and complies with, the Indentures and will not cause interest on the Bonds to be included in gross income for federal income tax purposes, and (b) written evidence from each Rating Service, that such substitution will not result in a lower rating than the then-existing rating.

SERIES 2005D INITIAL LIQUIDITY AGREEMENT

The following is a summary of certain provisions of the Series 2005D Initial Liquidity Agreement. The following summary does not purport to be a full and complete statement of the provisions of the Series 2005D Initial Liquidity Agreement and such Initial Liquidity Agreement should be read in full for a complete understanding of all the terms and provisions thereof. Copies of the Series 2005D Initial Liquidity Agreement may be obtained upon request from the office of the Board's Chief Financial Officer. DEPFA BANK plc, acting through its New York Branch, will be the Initial Bank under the Series 2005D Initial Liquidity Agreement (the "Series 2005D Bank"). See APPENDIX E for certain information regarding the Series 2005D Bank.

The Series 2005D Bank agrees, under its Initial Liquidity Agreement and during the Commitment Period on the terms and conditions set forth therein, provided that it receives a timely Notice of Bank Purchase as required by the Series 2005D Initial Liquidity Agreement, to purchase the Series 2005D Bonds (other than Series 2005D Bank Bonds or Series 2005D Bonds owned by or held on behalf of the Board) in a Daily Mode and a Weekly Mode covered by the Series 2005D Initial Liquidity Agreement that are tendered pursuant to certain provisions of the Indenture for the Series 2005D Bonds (the "Series 2005D Indenture") and may not be remarketed by the applicable Remarketing Agent pursuant to the terms of the respective Remarketing Agreement. The Series 2005D Initial Liquidity Agreement is scheduled to terminate on December 8, 2012 unless extended as described therein or unless terminated or suspended as described herein. See "-- Events of Default," "-- Consequences of Events of Default" and "-- Termination of the Series 2005D Initial Liquidity Agreement" below. If requested by the Board, the Series 2005D Initial Liquidity Agreement may be extended in the sole discretion of the Series 2005D Bank.

The Series 2005D Initial Liquidity Agreement will initially provide a commitment in an amount not to exceed the sum of Available Principal Commitment of the Series 2005D Bonds and up to 34 days of interest thereon (calculated on a 365-day year), at a maximum rate of 15% per annum to purchase, on the terms and conditions set forth in the Series 2005D Initial Liquidity Agreement, the Series 2005D Bonds bearing interest at the Daily Rate and the Weekly Rate which may be tendered ("Series 2005D Tendered Bonds") pursuant to (a) an optional tender upon the events of optional tender described under the caption "THE BONDS - Tenders - Optional Tender" or (b) a mandatory tender upon the events of mandatory tender described under the caption "THE BONDS - Tenders - Mandatory Tender," and which in either case, have not been remarketed. The amount of the commitment under the Series 2005D Initial Liquidity Agreement will be reduced as Series 2005D Bonds covered by such Initial Liquidity Agreement are paid or redeemed. The Series 2005D Bank's obligations to purchase Series 2005D Tendered Bonds may be suspended, and the Series 2005D Initial Liquidity Agreement may be terminated, under certain circumstances as described under the subcaptions "-- Events of Default," "-- Consequences of Events of Default" and "Termination of the Series 2005D Initial Liquidity Agreement," below.

If Series 2005D Bonds are not remarketed by the applicable Remarketing Agent on the day such Series 2005D Bonds are to be tendered, the Trustee will give the Series 2005D Bank notice as provided in the Series 2005D Initial Liquidity Agreement. Upon receipt of such notice, and upon the determination by the Series 2005D Bank that the conditions precedent to purchase specified in the Series 2005D Initial Liquidity Agreement are satisfied, the Series 2005D Bank will transmit to the Trustee in immediately available funds an amount equal to the aggregate purchase price of such Series 2005D Bonds for which remarketing proceeds are not available as requested by the Trustee up to the Available Commitment as specified in the Series 2005D Initial Liquidity Agreement. Series 2005D Bonds purchased with such funds provided by the Series 2005D Bank (the "Series 2005D Bank Bonds") will be registered by the Trustee for the account of Series 2005D Bank.

THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT IS TO FUND PURCHASES OF THE SERIES 2005D BONDS WHICH ARE TENDERED BUT FOR WHICH REMARKETING PROCEEDS ARE NOT AVAILABLE AND DOES NOT SUPPORT THE

PAYMENT OF PRINCIPAL OF AND INTEREST ON THE SERIES 2005D BONDS AS THE SAME BECOMES DUE AND PAYABLE. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, PURCHASES WILL NOT BE MADE UNDER THE SERIES 2005D INITIAL LIQUIDITY AGREEMENT AND, THEREFORE, FUNDS MAY NOT BE AVAILABLE TO PURCHASE SERIES 2005D BONDS. THE BOND INSURANCE POLICY DOES NOT GUARANTY PAYMENT OF THE PURCHASE PRICE OF SERIES 2005D BONDS.

Upon the receipt by the Trustee of a written request of the Board, and the written consent of the Bond Insurer stating that the amount available under the Series 2005D Liquidity Facility may be reduced in compliance with the Series 2005D Indenture, the Trustee shall direct or send appropriate notice to the Series 2005D Bank requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2005D Liquidity Facility, subject to any requirements of such Liquidity Facility. In no event shall Series 2005D Liquidity Facility covering the Series 2005D Bonds be reduced to an amount less than the principal amount of the Series 2005D Bonds outstanding which bear interest at a Daily Rate or a Weekly Rate, plus an amount equal to interest thereon at the Interest Coverage Rate then required by any Rating Service for the greater of (i) the number of days then required by any such Rating Service or (ii) the number of days then required by the Bond Insurer, unless the Board has deposited a Substitute Liquidity Facility with the Trustee in accordance with the terms of the Series 2005D Indenture, or unless the requirements set forth in the Series 2005D Indenture are satisfied. In no event shall any Substitute Series 2005D Liquidity Facility replace only in part any then-current Series 2005D Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series 2005D Bond, either at its Maturity Date, by optional or mandatory sinking fund redemption or otherwise, the Trustee shall direct or send appropriate notice to the Series 2005D Bank requesting or directing that the amount available under Series 2005D Liquidity Facility to be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under Series 2005D Liquidity Facility on such principal amount.

The Series 2005D Initial Liquidity Agreement contains certain additional covenants and agreements of the Board which are in addition to those summarized in APPENDIX B -- "Summary of Certain Provisions of the Indenture," the breach of which could constitute an Event of Default under the Series 2005D Initial Liquidity Agreement. The covenants and agreements contained in the Series 2005D Initial Liquidity Agreement are for the benefit only of the Series 2005D Bank and may be waived at any time in the sole discretion of the Series 2005D Bank or amended at any time in accordance with the amendment provisions of the Series 2005D Initial Liquidity Agreement. Series 2005D Bondholders are not entitled to and should not rely upon any of the covenants and agreements in the Series 2005D Initial Liquidity Agreement. The Liquidity Agreement securing the Series 2005D Bonds may be extended, renewed, terminated or replaced without affecting the Liquidity Agreement securing the Series 2005E Bonds. The covenants and agreements, including events of default, contained in the Series 2005D Liquidity Agreement covering the Series 2005D Bonds may be waived or amended at any time by the Series 2005D Bank without affecting the Liquidity Agreement covering the Series 2005E Bonds. There are no cross-default provisions in the Initial Liquidity Agreements providing that a default under one Initial Liquidity Agreement automatically constitutes a default under the other Initial Liquidity Agreement.

Liquidity Agreement Events of Default

The following are "Events of Default" under the Series 2005D Initial Liquidity Agreement:

(a) the occurrence and continuance of one or more of the following events: (a) the issuance of an order of rehabilitation, liquidation or dissolution of the Bond Insurer; (b) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (c) the commencement against the Bond Insurer of any involuntary case or other proceeding seeking any relief, referred to in the preceding clause (b) and such case or proceeding shall not have been dismissed within sixty (60) days following the commencement thereof; (d) the making by the Bond Insurer of an assignment for the benefit of creditors; (e) the failure of the Bond Insurer to generally pay its Debts (provided that for purposes of this definition, "Debts" shall not include any obligation of the Bond Insurer under any insurance policy or surety bond) as they become due; or (f) the initiation by the Bond Insurer of any actions to authorize any of the foregoing.

(b) (i) any scheduled principal or interest due on the Series 2005D Bonds is not paid by the Board when due and such principal or interest is not paid by the Bond Insurer with respect to the Series 2005D Bonds when due pursuant to the terms of the Bond Insurance Policy and such failure shall continue for three (3) Business Days, or (ii) the Bond Insurance Policy is surrendered, canceled, terminated, amended or modified without the prior written consent of the Series 2005D Bank, or a new Bond Insurer is substituted for the Bond Insurer as the Bond Insurer without the prior written consent of the Series 2005D Bank (which such consent shall not be unreasonably withheld); or

(c) (i) any material provision of the Bond Insurance Policy relating to the obligation of the Bond Insurer to make payments thereunder at any time for any reason ceases to be valid and binding on the Bond Insurer in accordance with the terms of the Bond Insurance Policy or is declared to be null and void by a court or other Governmental Authority of appropriate jurisdiction or (ii) the Bond Insurer shall (A) claim in writing that the Bond Insurance Policy is not valid and binding on the Bond Insurer, (B) repudiate in writing the Bond Insurer's obligations under the Bond Insurance Policy or (C) initiate legal proceedings seeking an adjudication that the Bond Insurance Policy is not valid and binding on the Bond Insurer; or

(d) the Bond Insurer shall fail to make any payment required under any insurance policy (other than the Bond Insurance Policy) or surety bond (other than a fee surety bond) issued by it insuring obligations rated by Moody's and S&P when due and such failure shall continue for a period of thirty (30) Business Days (it being understood by the Series 2005D Bank that default, for purposes of this paragraph, shall not mean a situation whereby the Bond Insurer contests in good faith its liability under any such policy or policies in light of claims made thereunder); or

(e) each of Moody's, S&P and Fitch shall downgrade the rating of the financial strength or claims-paying ability of the Bond Insurer to below "Baa3" (or its equivalent) by Moody's and "BBB-" (or its equivalent) by S&P and Fitch, respectively, or each of Moody's, S&P and Fitch shall suspend or withdraw such financial strength or claims-paying ability rating (for credit-related reasons only).

(f) the failure of the Series 2005D Bank to receive timely payment from the Board of any obligations or liabilities of the Board under the Series 2005D Initial Liquidity Agreement other than the Board's obligation to pay the principal of and interest on the Series 2005D Bank Bonds; provided, however that such event shall not become an Event of Default until the Board and the Bond Insurer receive written notice of such failure and neither the Board nor the Bond Insurer cures such failure within ten (10) Business Days after receipt of such written notice; or

(g) any representation or warranty of the Board set forth in the Series 2005D Initial Liquidity Agreement shall prove to have been false in any material respect when made or certain covenants of the Board shall not be complied with; or

(h) a proceeding has been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Board in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of the Board or for any substantial part of its property or for the winding-up or liquidation of its affairs and such proceeding has remained undismissed or unstayed and in effect for a period of 60 consecutive days or such court has entered a decree or other granting the relief sought in such proceedings; or

(i) the Board has become insolvent or unable to pay its debts as they mature, has voluntarily suspended transaction of its business, has commenced a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, has consented to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Board or for any substantial part of its property, or has made a general assignment for the benefit of creditors, or has failed generally to pay its debts as they become due, or has taken any action in furtherance of any of the foregoing; or

(j) an "event of default" shall occur and be continuing under any Financing Document and the expiration of any applicable grace period shall have occurred; or

(k) the Board shall default in the performance of its covenants in the Series 2005D Initial Liquidity Agreement (other than the covenants described in clause (g) above) and such default shall continue for a period of thirty (30) days after written notice thereof to the Board and the Series 2005D Bank by the Trustee; or

(l) the downgrading of the claims paying ability of the Bond Insurer for 30 consecutive days below "A-" (or its equivalent), "A3" (or its equivalent), or "A-" (or its equivalent) by any of Moody's, S&P or Fitch, respectively.

Consequences of Events of Default

(a) Upon the occurrence and during the continuance of an Event of Default as specified in paragraphs (a), (b), (c)(i), (d) or (e) under the subcaption "-- Events of Default" above (each a "Termination Event"), the obligation of the Series 2005D Bank to purchase Series 2005D Bonds shall immediately and automatically terminate without notice or demand to any Person, and thereafter the Series 2005D Bank shall be under no obligation to purchase any Series 2005D Bonds. Promptly upon obtaining knowledge of such Event of Default, the Series 2005D Bank shall give written notice of the same to the Trustee, the Bond Insurer, the applicable Remarketing Agents and the Board; provided, that the Series 2005D Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Series 2005D Bank's obligation to purchase Series 2005D Bonds.

(b) Upon the occurrence of an Event of Default specified in paragraph (c)(ii), or an event which, with the giving of notice or passage of time, or both, shall constitute an Event of Default (a "Potential Event of Default") specified in paragraph (b)(i) or a Potential Event of Default specified in paragraph (d) under the subcaption "Events of Default" above, the obligation of the Series 2005D Bank under the Series 2005D Initial Liquidity Agreement to purchase Series 2005D Bonds shall be immediately and automatically suspended, without notice, and the Series 2005D Bank shall be under no further obligation under the Series 2005D Initial Liquidity Facility to purchase Series 2005D Bonds unless and until the obligation of the Series 2005D Bank to purchase Series 2005D Bonds is reinstated as described below. Promptly upon obtaining knowledge of any event described above (each a "Suspension Event") (whether from the Board, the Trustee or otherwise), the Series 2005D Bank shall give the Board, the Trustee and the Bond Insurer written notice of such Suspension Event; provided that the Series 2005D Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment and of the obligations of the Series 2005D Bank to purchase Series 2005D Bonds pursuant to the Series 2005D Initial Liquidity Agreement. The Board shall promptly direct the Trustee in writing to notify all Series 2005D Bondholders of any suspension of the obligation of the Series 2005D Bank to purchase Series 2005D Bonds as a result of the occurrence of such Suspension Event. If at any time prior to the earlier of (i) the then current Expiration Date and (ii) the date that is three years following the suspension of the obligation of the Series 2005D Bank to purchase Series 2005D Bonds, (x) the Suspension Event which gave rise to such suspension is cured or ceases to be continuing and (y) the obligation of the Series 2005D Bank to purchase Series 2005D Bonds under the Series 2005D Initial Liquidity Agreement has not otherwise terminated (including, without limitation, the termination of the Series 2005D Bank's obligations hereunder due to the expiration of the grace period, if any, applicable to such Suspension Event), then, upon written notice from the Trustee to the Series 2005D Bank to such effect, the obligation of the Series 2005D Bank to purchase Bonds under the Series 2005D Initial Liquidity Agreement shall be automatically reinstated. If the Suspension Event which gave rise to the suspension of the obligations of the Series 2005D Bank to purchase Bonds under the Series 2005D Initial Liquidity Agreement has not been cured prior to, or is continuing on, the date that is three years following the suspension of the obligation of the Series 2005D Bank to purchase Series 2005D Bonds, then the obligations of the Series 2005D Bank to purchase Series 2005D Bonds shall be terminated upon written notice from the Series 2005D Bank to the Board, the

Trustee and the Bond Insurer, and thereafter the Series 2005D Bank shall have no further obligations to purchase any Series 2005D Bonds; provided that the Series 2005D Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Series 2005D Bank to purchase Series 2005D Bonds under the Series 2005D Initial Liquidity Agreement.

(c) Upon the occurrence and during the continuance of a Potential Event of Default described in paragraph (a) under the subcaption "Event of Default" above, the obligation of the Series 2005D Bank to purchase Series 2005D Bonds under the Series 2005D Initial Liquidity Agreement shall be immediately and automatically suspended, without notice, and the Series 2005D Bank shall be under no further obligation under the Series 2005D Initial Liquidity Facility to purchase Series 2005D Bonds, until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Series 2005D Bank under the Series 2005D Initial Liquidity Agreement shall be automatically reinstated and the terms of the Series 2005D Initial Liquidity Agreement shall continue in full force and effect (unless the obligation of the Series 2005D Bank to purchase Bonds under the Series 2005D Initial Liquidity Agreement shall otherwise have terminated or there has occurred a Termination Event) as if there had been no such suspension.

(d) Upon the occurrence of an Event of Default specified in paragraphs (g), (h), (i), (j) or (k) under the subcaption "-- Events of Default" above, the Series 2005D Bank may, but is not obligated to, notify the Trustee and pursue any remedy available to it at law or in equity including, but not limited to, an action for specific performance; but the Series 2005D Bank may not, in any case, cause a mandatory purchase of Series 2005D Bonds or terminate the Series 2005D Initial Liquidity Agreement or the obligation of the Series 2005D Bank to purchase Series 2005D Bonds in accordance with the provisions thereof. The Series 2005D Bank acknowledges that except as expressly provided in the Series 2005D Initial Liquidity Agreement, it shall have no right to have Series 2005D Bank Bonds repurchased or the principal amount thereof repaid prior to stated maturity.

(e) Upon the occurrence of an Event of Default specified in paragraphs (f) or (l) under the subcaption "-- Events of Default" above, the Series 2005D Bank may terminate its obligation to purchase Series 2005D Bonds by giving written notice to the Board, the Trustee, the applicable Remarketing Agents and the Bond Insurer, specifying the date on which its obligation to purchase Series 2005D Bonds shall terminate (the "Termination Date"), which shall be not less than 20 days from the date of receipt of such notice, and on and after the Termination Date the Series 2005D Bank shall be under no further obligation to purchase Bonds under the Series 2005D Initial Liquidity Facility other than Bonds which are the subject of the mandatory tender pursuant to the Series 2005D Indenture, which the Series 2005D Bank shall be required to purchase on or prior to the Termination Date. See "THE BONDS - Tenders - Mandatory Tender."

Termination of the Series 2005D Initial Liquidity Agreement

The obligations of Series 2005D Bank to purchase the Series 2005D Bonds covered by the Series 2005D Initial Liquidity Agreement shall expire on the earliest of (i) the later of (a) December 8, 2012 or (b) the last day of any extension of the Series 2005D Initial Liquidity Agreement or if such day is not a Business Day, the next preceding Business Day (the "Stated Expiration Date"), (ii) the date on which no Series 2005D Bonds are Outstanding under the Series 2005D Indenture, (iii) the close of business on the Business Day immediately succeeding the date on which the interest rate on all Series 2005D Bonds covered by the Series 2005D Initial Liquidity Agreement is converted to a Fixed Rate, Term Rate or Auction Rate, (iv) the close of business on the 20th day following the date on which a Notice of Termination is received by the Board and the Trustee, or if such 20th day is not a Business Day, the next succeeding Business Day, (v) the effective date of a Substitute Liquidity Facility pursuant to the Series 2005D Indenture, and (vi) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to the Series 2005D Initial Liquidity Agreement or due to the occurrence of an Event of Default described in paragraphs (a), (b), (c)(i), (d) or (e) under the subcaption "-- Events of Default" above.

SERIES 2005E INITIAL LIQUIDITY AGREEMENT

The following is a summary of certain provisions of the Series 2005E Initial Liquidity Agreement. The following summary does not purport to be a full and complete statement of the provisions of the Series 2005E Initial Liquidity Agreement and such Initial Liquidity Agreement should be read in full for a complete understanding of all the terms and provisions thereof. Copies of the Series 2005E Initial Liquidity Agreement may be obtained upon request from the office of the Board's Chief Financial Officer. Initially, Dexia Credit Local, acting through its New York Branch, will be the Series 2005E Bank under the Series 2005E Initial Liquidity Agreement. See APPENDIX F for certain information regarding the Series 2005E Bank.

The Series 2005E Bank agrees, under its Initial Liquidity Agreement and during the Commitment Period on the terms and conditions set forth therein, provided that it receives a timely Notice of Bank Purchase as required by the Series 2005E Initial Liquidity Agreement, to purchase the Series 2005E Bonds (other than Bank Bonds or Bonds owned by or held on behalf of the Board) in a Daily Mode and a Weekly Mode covered by the Series 2005E Initial Liquidity Agreement that are tendered pursuant to certain provisions of the Indenture for the Series 2005E Bonds (the "Series 2005E Indenture") and may not be remarketed by the applicable Remarketing Agent pursuant to the terms of the respective Remarketing Agreement. The Series 2005E Initial Liquidity Agreement is scheduled to terminate on December 8, 2012 unless extended as described therein or unless terminated or suspended as described herein. See "-- Events of Default,' "-- Consequences of Events of Default" and "-- Termination of the Initial Liquidity Agreement" below. If requested by the Board, the Series 2005E Initial Liquidity Agreement may be extended in the sole discretion of the Series 2005E Bank.

The Series 2005E Initial Liquidity Agreement will initially provide a commitment in an amount not to exceed the sum of Available Principal Commitment of the Series 2005E Bonds and up to 34 days of interest thereon (calculated on a 365-day year), at a maximum rate of 15 percent per annum to purchase, on the terms and conditions set forth in the Series 2005E Initial

Liquidity Agreement, the Series 2005E Bonds bearing interest at the Daily Rate and the Weekly Rate which may be tendered ("Series 2005E Tendered Bonds") pursuant to (a) an optional tender upon the events of optional tender described under the caption "THE BONDS -- Tenders -- Optional Tender" or (b) a mandatory tender upon the events of mandatory tender described under the caption "THE BONDS -- Tenders -- Mandatory Tender," and which in either case, have not been remarketed. The amount of the commitment under the Series 2005E Initial Liquidity Agreement will be reduced as Series 2005E Bonds covered by such Initial Liquidity Agreement are paid or redeemed. The Series 2005E Bank's obligation to purchase Series 2005E Tendered Bonds may be suspended, and the Series 2005E Initial Liquidity Agreement may be terminated under certain circumstances as described under the subcaptions "-- Events of Default," "-- Consequences of Events of Default" and "Termination of the Series 2005E Initial Liquidity Agreements," below.

If the Series 2005E Bonds are not remarketed by the applicable Remarketing Agent on the day such Series 2005E Bonds are to be tendered, the Trustee will give the Series 2005E Bank notice as provided in the Series 2005E Initial Liquidity Agreement. Upon receipt of such notice, and upon the determination by Series 2005E Bank that the conditions precedent to purchase specified in the Series 2005E Initial Liquidity Agreement are satisfied, the Series 2005E Bank will transmit to the Trustee in immediately available funds an amount equal to the aggregate purchase price of such Series 2005E Bonds for which remarketing proceeds are not available as requested by the Trustee up to the Available Commitment as specified in the Series 2005E Initial Liquidity Agreement. Series 2005E Bonds purchased with such funds provided by the Series 2005E Bank (the "Series 2005E Bank Bonds") will be registered by the Trustee for the account of Series 2005E Bank.

THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT IS TO FUND PURCHASES OF THE SERIES 2005E BONDS WHICH ARE TENDERED BUT FOR WHICH REMARKETING PROCEEDS ARE NOT AVAILABLE AND DOES NOT SUPPORT THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE SERIES 2005E BONDS AS THE SAME BECOMES DUE AND PAYABLE. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, PURCHASES WILL NOT BE MADE UNDER THE SERIES 2005E INITIAL LIQUIDITY AGREEMENT AND, THEREFORE, FUNDS MAY NOT BE AVAILABLE TO PURCHASE SERIES 2005E BONDS. THE BOND INSURANCE POLICY DOES NOT GUARANTY PAYMENT OF THE PURCHASE PRICE OF SERIES 2005E BONDS.

Upon the receipt by the Trustee of a written request of the Board and the written consent of the Bond Insurer stating that the amount available under the Series 2005E Liquidity Facility may be reduced in compliance with the Series 2005E Indenture, the Trustee shall direct or send appropriate notice to the Series 2005E Bank requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Series 2005E Liquidity Facility, subject to any requirements of such Liquidity Facility. In no event shall the Series 2005E Liquidity Facility covering the Series 2005E Bonds be reduced to an amount less than the principal amount of the Series 2005E Bonds outstanding which bear interest at a Daily Rate or a Weekly Rate, plus an amount equal to interest thereon at the Interest Coverage Rate then required by any Rating Service for the greater of (i) the number of days then required by any such Rating Service or (ii) the number of days then required by the Bond Insurer, unless the

Board has deposited a Substitute Liquidity Facility with the Trustee in accordance with the terms of the Series 2005E Indenture, or unless the requirements set forth in the Series 2005E Indenture are satisfied. In no event shall any Substitute Series 2005E Liquidity Facility replace only in part any then-current Series 2005E Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Series 2005E Bond, either at its Maturity Date, by optional or mandatory sinking fund redemption or otherwise, the Trustee shall direct or send appropriate notice to the Series 2005E Bank requesting or directing that the amount available under the Series 2005E Liquidity Facility to be reduced by an amount equal to such principal so paid plus the amount of interest theretofore provided for under Series 2005E Liquidity Facility on such principal amount.

The Series 2005E Initial Liquidity Agreement contains certain additional covenants and agreements of the Board which are in addition to those summarized in "APPENDIX B -- "Summary of Certain Provisions of the Respective Indenture," the breach of which could constitute an Event of Default under the Series 2005E Initial Liquidity Agreement. The covenants and agreements contained in the Series 2005E Initial Liquidity Agreement are for the benefit only of the Series 2005E Bank and may be waived at any time in the sole discretion of the Series 2005E Bank or amended at any time in accordance with the amendment provisions of the Series 2005E Initial Liquidity Agreement. Series 2005E Bondholders are not entitled to and should not rely upon any of the covenants and agreements in the Series 2005E Initial Liquidity Agreement. The Liquidity Agreement securing the Series 2005E Bonds may be extended, renewed, terminated or replaced without affecting the Liquidity Agreement securing the Series 2005D Bonds. The covenants and agreements, including events of default, contained in the Series 2005E Liquidity Agreement covering the Series 2005E Bonds may be waived or amended at any time by the Series 2005E Bank without affecting the Liquidity Agreement covering the Series 2005D Bonds. There are no cross-default provisions in the Initial Liquidity Agreements providing that a default under one Initial Liquidity Agreement automatically constitutes a default under the other Initial Liquidity Agreement.

Liquidity Agreement Events of Default

The following are "Events of Default" under the Series 2005E Initial Liquidity Agreement:

(a) the Bond Insurer (i) shall fail to make any payment under the Policy when due and such failure shall continue for three Business Days or (ii) shall fail to make any payment required under any other insurance policy (other than the Bond Insurance Policy) or surety bond (other than a fee surety bond) issued by the Bond Insurer insuring obligations rated by Moody's and Standard & Poor's when due and such failure shall continue for 30 days or such longer period that the obligation of the Bond Insurer to pay is being investigated by the Bond Insurer in good faith by appropriate proceedings; or

(b) the Bond Insurance Policy, or any provision of the Bond Insurance Policy relating to payments thereunder shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction; or the validity or enforceability thereof shall be contested in writing by the Bond Insurer; or

(c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Bond Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding or the Bond Insurer becomes insolvent or unable to pay its debts as they mature, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Bond Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims foregoing; provided, however, that the Bond Insurer's failure to make payments on any financial guaranty insurance policies or surety bonds because of a legitimate dispute between the Bond Insurer and the beneficiary of such policies or surety bonds shall not in and of itself constitute a failure of the Bond Insurer to generally pay its debts or claims as they become due; or

(d) the failure of the Bank to receive timely payment from the Board of any obligations or liabilities of the Board under the Series 2005E Initial Liquidity Agreement other than the Board's obligation to pay the principal of and interest on the Bank Bonds; provided, however, that such event shall not become an Event of Default until the Bond Insurer receives written notice of such failure and the Bond Insurer does not cure such failure within ten (10) Business Days after receipt of such written notice; or

(e) any representation or warranty of the Board set forth in the Series 2005E Initial Liquidity Agreement shall prove to have been false in any material respect when made or any covenant of the Board shall not be complied with; or

(f) a proceeding has been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Board in an involuntary case under any applicable bankruptcy, insolvency or other similar law nor or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of the Board or for any substantial part of its property or for the winding-up or liquidation of its affairs and such proceedings has remained undismissed or unstayed and in effect for a period of 60 consecutive days or such court has entered a decree or other granting the relief sought in such proceedings; or

(g) the Board has become insolvent or unable to pay its debts as they mature, has voluntarily suspended transaction of its business, has commenced a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, has consented to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Board or for any substantial part of its property, or has made a general assignment for the benefit of creditors, or has failed generally to pay its debts as they become due, or has taken any action in furtherance of any of the foregoing; or

(h) an "event of default" shall occur and be continuing under any Financing Document and the expiration of any applicable grace period shall have occurred; or

(i) the Board shall default in the performance of its covenants in the Series 2005E Initial Liquidity Agreement and such default shall continue for a period of thirty days after written notice thereof to the Board and the Series 2005E Bank by the Trustee; or

(j) the downgrading of the claims paying ability of the Bond Insurer below "Baa3" (or its equivalent) by Moody's and "BBB-" (or its equivalent) by S&P and Fitch, respectively, or each of Moody's, S&P and Fitch shall suspend or withdraw such financial strength or claims-paying ability rating (for credit-related reasons only).

Consequences of Events of Default

(a) Upon the occurrence and during the continuance of an Event of Default as specified in paragraphs (a), (b), (c) or (k) under "-- Events of Default" above, the obligation of the Series 2005E Bank to purchase Series 2005E Bonds shall immediately terminate without notice or demand to any Person, and thereafter the Series 2005E Bank shall be under no obligation to purchase Series 2005E Bonds. Promptly upon such Event of Default, the Series 2005E Bank shall give written notice of the same to the Trustee, the Bond Insurer, the applicable Remarketing Agents and the Board; provided, that the Series 2005E Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Series 2005E Bank's obligation to purchase Series 2005E Bonds. In addition, the Series 2005E Bank may pursue any other remedy permitted to the Series 2005E Bank under the Series 2005E Initial Liquidity Agreement or at law or in equity.

(b) Upon the occurrence of an Event of Default specified in Section (a)(i) or an event which, with the giving of notice or passage of time, or both, shall constitute an Event of Default (a "Potential Event of Default") specified in (a)(ii) under "— Events of Default" above, the obligation of the Series 2005E Bank under the Series 2005E Initial Liquidity Agreement to purchase Series 2005E Bonds shall be immediately and automatically suspended, without notice, and the Series 2005E Bank shall be under no further obligation hereunder to purchase Series 2005E Bonds unless and until the obligation of the Series 2005E Bank to purchase Series 2005E Bonds is reinstated as described below. Promptly upon obtaining knowledge of any event described above (each a "Suspension Event") (whether from the Board, the Trustee or otherwise), the Series 2005E Bank shall give the Board, the Trustee and the Bond Insurer written notice of such Suspension Event; provided, that the Series 2005E Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment and of the obligations of the Series 2005E Bank to purchase Series 2005E Bonds pursuant to the Series 2005E Initial Liquidity Agreement. The Board shall promptly direct the Trustee in writing to notify all Series 2005E Bondholders of any suspension of the obligation of the Series 2005E Bank to purchase Series 2005E Bonds as a result of the occurrence of such Suspension Event. If at any time prior to the earlier of (i) the then current Expiration Date and (ii) the date that is three years following the suspension of the obligation of the Series 2005E Bank to purchase Series 2005E Bonds, (x) the Suspension Event which gave rise to such suspension is cured or ceases to be continuing and (y) the obligation of the Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Initial Liquidity Agreement has not otherwise terminated (including, without limitation, the termination of the Series 2005E Bank's obligations under the Series 2005E Initial Liquidity Agreement due to the expiration of the grace period, if any, applicable to

such Suspension Event), then, upon written notice from the Trustee to the Series 2005E Bank to such effect, the obligation of the Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Initial Liquidity Agreement shall be automatically reinstated. If the Suspension Event which gave rise to the suspension of the obligations of the Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Initial Liquidity Agreement has not been cured prior to, or is continuing on, the date that is three years following the suspension of the obligation of the Series 2005E Bank to purchase Series 2005E Bonds, then the obligations of the Series 2005E Bank to purchase Series 2005E Bonds shall be terminated upon written notice from the Series 2005E Bank to the Board, the Trustee and the Bond Insurer, and thereafter the Series 2005E Bank shall have no further obligations to purchase any Series 2005E Bonds; provided, that the Series 2005E Bank shall not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Available Commitment and of the obligations of the Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Initial Liquidity Agreement.

Upon the occurrence and during the continuance of a Potential Event of Default described in (c) under "— Events of Default" above, the obligation of Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Liquidity Facility shall be immediately and automatically suspended, without notice, and the Series 2005E Bank shall be under no further obligation under the Series 2005E Liquidity Facility to purchase Series 2005E Bonds, until the bankruptcy, insolvency or similar proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, then the obligation of the Series 2005E Bank under the Series 2005E Liquidity Facility shall be automatically reinstated and the terms of the Series 2005E Liquidity Agreement shall continue in full force and effect (unless the obligation of the Series 2005E Bank to purchase Series 2005E Bonds under the Series 2005E Liquidity Facility shall otherwise have terminated or there has occurred a Termination Event) as if there had been no such suspension.

(c) Upon the occurrence of an Event of Default specified in paragraphs (e), (f), (g), (h) or (i) under Events of Default" above, the Series 2005E Bank may, but is not obligated to, notify the Trustee and pursue any remedy available to it at law or in equity including, but not limited to, an action for specific performance; but the Series 2005E Bank may not, in any case, cause a mandatory purchase of Series 2005E Bonds or terminate the Series 2005E Initial Liquidity Agreement or the obligation of the Series 2005E Bank to purchase Series 2005E Bonds in accordance with the provisions thereof. The Series 2005E Bank acknowledges that except as provided in the Series 2005E Initial Liquidity Agreement, it shall have no right to have Series 2005E Bank Bonds repurchased or the principal amount thereof repaid prior to stated maturity.

(d) Upon the occurrence of an Event of Default specified in paragraphs (d) or (j) under "-- Events of Default" above, the Series 2005E Bank may terminate its obligation to purchase Series 2005E Bonds by giving written notice to the Board, the Trustee, the applicable Remarketing Agents and the Bond Insurer, specifying the date on which its obligation to purchase Series 2005E Bonds shall terminate (the "Termination Date"), which shall be not less than 20 days from the date of receipt of such notice, and on and after the Termination Date the Series 2005E Bank shall be under no further obligation to purchase Series 2005E Bonds hereunder other than Series 2005E Bonds which are the subject of the mandatory tender pursuant

to the Series 2005E Indenture, which the Series 2005E Bank shall be required to purchase on or prior to the Termination Date. See "THE BONDS -- Tenders -- Mandatory Tender."

Termination of the Series 2005E Initial Liquidity Agreement

The obligations of Series 2005E Bank to purchase Series 2005E Bonds covered by the Series 2005E Initial Liquidity Agreement shall expire on the earliest of (i) the later of (a) December 8, 2012 or (b) the last day of any extension of such Series 2005E Initial Liquidity Agreement or if such day is not a Business Day, the next preceding Business Day (the "Stated Expiration Date"), (ii) the date on which no Series 2005E Bonds are Outstanding under the respective Indenture, (iii) the close of business on the Business Day immediately succeeding the date on which the interest rate on all Series 2005E Bonds covered by the Series 2005E Initial Liquidity Agreement is converted to a Fixed Rate, Term Rate or Auction Rate, (iv) the close of business on the 20th day following the date on which a Notice of Termination is received by the Board and the Trustee, or if such 20th day is not a Business Day, the next succeeding Business Day, (v) the effective date of a Substitute Liquidity Facility pursuant to the Series 2005E Indenture, and (vi) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to Series 2005E Initial Liquidity Agreement or due to the occurrence of an Event of Default described in paragraphs (a), (b) or (c) under the subcaption "-- Events of Default" above.

SUBSTITUTE LIQUIDITY FACILITY

General. The Board covenants in each Indenture that at all times while any Bonds are outstanding which bear interest at a Short Rate, it will maintain a Liquidity Facility in full force and effect with respect to all such Bonds, except as otherwise provided in such Indenture. In addition, the Board covenants that at all times while any Bonds are outstanding which bear interest at a Short Rate, if the rating of either the Series 2005D Bank or Series 2005E Bank shall be lowered by any Rating Service below the top two short-term rating categories assigned by such Rating Service (without giving effect to numeric or other qualifiers), then the Board shall use all reasonable efforts to obtain a Substitute Liquidity Facility for the respective Bonds.

Substitute Liquidity Facility. While the Bonds bear interest at a Short Rate, a Substitute Liquidity Facility may become effective on any Business Day, which shall be a Liquidity Substitution Date. The Board shall cause a draft of any Substitute Liquidity Facility in substantially final form and a commitment letter with respect thereto, together with written evidence from each Rating Service prior to the Liquidity Substitution Date of the rating on the applicable series of Bonds after the Liquidity Substitution Date, to be delivered to the Trustee, the Trustee's Agent, the applicable Remarketing Agents and the Bond Insurer for such series of Bonds, not less than 15 days prior to the proposed Liquidity Substitution Date. On each Liquidity Substitution Date the Board, any Bond Insurer, the applicable Remarketing Agents, the Trustee and the Trustee's Agent shall also receive (i) an opinion of counsel for the Substitute Bank regarding the enforceability of the Substitute Liquidity Facility in substantially the form delivered to the Trustee upon execution and delivery of the Liquidity Facility then in effect, (ii) an Opinion of Bond Counsel to the effect that the substitution of the Liquidity Facility then in effect will not adversely affect the validity of such Bonds or any exclusion from gross income for federal income tax purposes of interest on such Bonds would otherwise be entitled and (iii) an

Opinion of Counsel (other than counsel for the Substitute Bank) to the effect that such Substitute Liquidity Facility qualifies as a Substitute Liquidity Facility under the respective Indenture and (iv) a copy of the Substitute Liquidity Facility. The Board shall not execute and deliver a Substitute Liquidity Facility unless all obligations owing to the then current Bank under the related Liquidity Facility have been paid in full.

Anything in the Indentures or the Bonds to the contrary notwithstanding, the Board shall obtain the approval of the Bond Insurer prior to the delivery of a Substitute Liquidity Facility by a Substitute Bank, provided that the Bond Insurer shall not unreasonably withhold such approval if the Substitute Bank shall be rated at least "A-1" by S&P and "VMIG-1" by Moody's (in each case without regard to the then- existing long term rating of the Substitute Bank).

THE REMARKETING AGREEMENTS

Lehman Brothers, Inc. (the "Series 2005D Bonds Remarketing Agent") has been appointed as the initial Remarketing Agent for the Series 2005D Bonds, pursuant to the Indenture and a Series 2005D Bonds Remarketing Agreement. The principal office of Lehman Brothers, Inc. is 745 7th Avenue, 3rd Floor, New York, New York 10019. Loop Capital Markets, LLC (the "Series 2005E-1 Bonds Remarketing Agent") has been appointed as the initial Remarketing Agent for the Series 2005E-1 Bonds, pursuant to the Indenture and a Series 2005E-1 Bonds Remarketing Agreement. The principal office of Loop Capital Markets, LLC is 200 W. Jackson Boulevard, Suite 1600, Chicago, Illinois 60606. Morgan Stanley & Co. Incorporated (the "Series 2005E-2 Bonds Remarketing Agent") has been appointed as the initial Remarketing Agent for the Series 2005E-2 Bonds, pursuant to the Indenture and a Series 2005E-2 Bonds Remarketing Agreement. The principal office of Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, New York. The Series 2005D Bonds Remarketing Agent, the Series 2005E-1 Bonds Remarketing Agent and the Series 2005E-2 Bonds Remarketing Agent are sometimes herein referred as "Remarketing Agent."

Each Remarketing Agent agrees to perform all of the interest rate setting functions for the Bonds assigned to it in the respective Indenture and to use its best efforts to offer for sale and to sell the Bonds tendered at a price of not less than 100% of the principal amount thereof plus accrued interest, if any. Each Remarketing Agent shall be under no obligation to remarket Bonds upon the occurrence of a Special Liquidity Default or Liquidity Agreement Default under the respective Indenture.

Each Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the applicable Remarketing Agreement by giving at least 60 calendar days' notice to the Board and the Trustee. Otherwise, each Remarketing Agreement shall remain in effect until the earlier of the first day all the Bonds subject to such Remarketing Agreement bear interest at an Auction Rate, Term Rate or Fixed Rate or the payment in full of all the Bonds.

It is the express intention of the Board, the Trustee, and the Remarketing Agents that no purchase, sale or transfer of any Bonds pursuant to the Remarketing Agreements shall constitute or be construed to be the extinguishment of any Bonds or the indebtedness represented thereby or the reissuance of any Bonds or the refunding of any indebtedness represented thereby. The Trustee or the Remarketing Agents in their individual capacity, either as principal or agent may

buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any owner of Bonds may be entitled to take with like effect as if it did not act in any capacity under the Remarketing Agreements. The Trustee or any Remarketing Agent in its individual capacity, either as principal or agent may also engage in or be interested in any financial or other transaction with the Board and may act as depository, trustee, or agency for any committee or body of owners of Bonds or other obligations of the Board as freely as if it did not act in capacity under the respective Remarketing Agreement or Indenture.

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 do 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. He is currently President of MS & Associates, LLC and he was 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 President and Chief Executive Officer of LaSalle Bank Corporation. 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. Mr. Bobins is active in several civic organizations, including Chicago United, the Field Museum and the Art Institute of Chicago.

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 Residency 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 on Affairs. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards and National School Boards Association – Counsel of Urban Boards of Education (NSBA – CUBE) Steering Committee member.

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.

Roxanne Ward is Vice President and Corporate Secretary/Corporate Liaison of Ariel Capital Management, LLC ("Ariel"), a Chicago-based investment management firm founded in 1983. Prior to joining Ariel, Roxanne spent four years working for the Chicago Park District as the First Assistant General Counsel, Board Liaison and Legislative Liaison. She spent more than 15 years working as a private sector attorney in the Chicago offices of Skadden, Arps, Slate, Meagher, and Flom and Mayer, Brown & Platt. Ms. Ward has been actively involved with many civic and community organizations. She is a Co-Chair of the Mayoral Policy Caucus on Prisoner Reentry and serves on the Board of Directors of the Safer Foundation. She is also a former

member of the Desegregation Monitoring Commission and of the Boards of the Illinois Facilities Fund and Congo Square Theater Company. Ms. Ward graduated Phi Beta Kappa from the University of Chicago with a Bachelor of Arts degree in Social Service Administration ("SSA"), followed by a Masters of Arts degree in SSA from the University of Chicago. She subsequently obtained her Juris Doctor from Harvard Law School.

Rufus Williams heads Olympus, LLC as its President and Chief Executive Officer. Mr. Williams has spent over 25 years in financial services and management with nearly 15 of those years in wealth and business management. Prior to founding Olympus, LLC, Mr. Williams worked for 10 years in various positions including Chief Financial Officer and Controller at Harpo Entertainment Group, a company best known for the production of the top-rated talk show, "The Oprah Winfrey Show." He began his career at Arthur Andersen & Co., where he rose to the level of Experienced Audit Manager. Mr. Williams left after 10 years to take a position as Corporate Audit Manager at Baxter Healthcare Corporation. Mr. Williams graduated Magna Cum Laude from Southern University of Baton Rouge, Louisiana with a degree in Accounting.

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

Member	Term Expires
Michael W. Scott, President.....	June 30, 2007
Clare Muñana, Vice President	June 30, 2006
Norman R. Bobins.....	June 30, 2006
Dr. Tariq Butt.....	June 30, 2007
Alberto A. Carrero, Jr.....	June 30, 2006
Roxanne Ward…….	June 30, 2007
Rufus Williams……	June 30, 2007

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.

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	Patrick J. Rocks

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 College. 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 of Chicago.

David Vitale is the Chief Administration Officer of the Board, overseeing all of the educational support departments, including Finance, Budget, Operations, Human Resources, Technology, Security, and Procurement. 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 a Masters of Business Administration 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 Bachelor of Science degree in Business Administration with a Concentration in Accounting from California State University–Bakersfield.

Patrick J. Rocks is the General Counsel of the Board. He has served in that office since March 1, 2005. Prior to his current appointment, Mr. Rocks served in various offices in the Office of the Corporation Counsel of the City of Chicago from 1987 to 2005. From November 2002 to February 2005, he served as First Assistant Corporation Counsel. From May 1998 to November 2002, he served as Deputy Corporation Counsel for the Employment Litigation Division. From December 1993 to May 1998, he served as Chief Assistant Corporation Counsel in the Labor Division. From July 1987 to December 1993, he served as an Assistant Corporation Counsel in the General Litigation and Labor Divisions. Prior to his service with the City of Chicago, Mr. Rocks served as a judicial clerk and was engaged in private practice. Mr. Rocks received his law degree from the John Marshall Law School in 1985 and his Bachelor's degree from Loyola University of Chicago in 1980.

School System

The Chicago Public School system consists of 613 attendance centers consisting of 486 elementary schools, 107 high schools and 20 charter schools serving 426,812 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
2004/2005	320,719	106,093	426,812
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

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 play lots.

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 1,485 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,085 additional students. These new classrooms are distributed throughout 29 new schools, 15 replacement schools, 37 additions and 27 annexes. Additionally, 2,479 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 317 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 approximately $4.2 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of

September 30, 2005, approximately $3.6 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 performing 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 2004 results from the Iowa Test of Basic Skills show that 43.7% of elementary school students are reading at or above national norms, while 46.6% are performing at or above national norms in math. Overall, reading scores are up 17.2 percentage points and math 16.6 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 June 1, 2005 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 2004, the Board adopted and achieved a balanced budget. On August 25, 2004, the Board also adopted a balanced budget for fiscal year 2005 that reflected total resources, including $30.3 million of available fund balances and appropriations of $4.05 billion for the General Operating Fund.

The most recent audited financial statements are for the fiscal year ended June 30, 2004 and are included as APPENDIX A, including the unqualified report of independent auditors dated December 17, 2004.

General Operating Fund Balances. As of June 30, 2004, the Board had a fund balance of $307.5 million, of which $111.0 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was $196.5 million, $171.3 million of which was designated to provide operating capital. The fiscal year 2005 budget re-appropriated $30.3 million of ending fiscal year 2004 fund balance as reserved for specific purposes.

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						Budget
	1999	2000	2001	2002	2003	2004	2005[4]
Revenues:							
Property Taxes	$1,314,362	$1,352,374	$1,379,010	$1,429,307	$1,495,382	$1,520,557	$1,582,000
Replacement Taxes	84,513	89,142	71,230	57,193	48,852	61,897	72,800
State Aid	1,190,289	1,247,174	1,275,707	1,336,586	1,307,229	1,329,390	1,442,000
Federal Aid	460,343	497,673	552,311	539,573	602,677	703,821	832,300
Investment Income	28,006	36,347	42,501	16,505	20,803	18,779	16,300
Other	71,113	65,515	78,107	66,917	76,609	87,545	72,300
Total Revenues	$3,148,626	$3,288,225	$3,398,866	$3,446,081	$3,551,552	$3,721,989	$4,017,700
Expenditures							
Instruction	$1,816,130	$1,888,879	$1,995,423	$2,152,958	$2,214,781	$2,355,114	$2,460,000
Pupil Services	271,876	301,714	303,071	311,628	320,380	327,653	349,000
Support Services	683,539	684,365	730,187	750,111	764,002	770,629	954,000
Food Services	154,581	161,614	166,365	160,063	170,238	180,588	187,000
Community Services	65,465	73,792	73,718	47,523	47,253	49,933	32,000
Capital Outlay	2,302		394				
Teachers' Pension	65,045	65,045	65,045	65,045	65,045	65,045	65,000
Other	1,790	9,093	18,916	6,558	13,742	9,548	1,000
Total Expenditures	$3,060,728	$3,184,502	$3,353,119	$3,493,886	$3,595,441	$3,758,510	$4,048,000
Revenues in Excess of (less than) Expenditures	$ 87,898	$ 103,723	$ 45,747	$ (47,805)	$ (43,889)	$ (36,521)	$ (30,300)
Other Financing Sources	—	11,436	(46,797)[2]	1,527	7,711	15,071	—
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	$ 87,898	$ 115,159	$ (1,050)	$ (46,278)	$ (36,178)	$ (21,450)	$ (30,300)
Fund Balance, Beginning of Period	361,895	449,793	564,952	411,412	365,134	328,956	307,506
Impact of Adopting GASB No. 33[3]	—	—	(152,490)	—	—	—	—
Fund Balance, End of Period	$ 449,793	$ 564,952	$ 411,412	$ 365,134	$ 328,956	$ 307,506	$ 277,206
Composition of Ending Fund Balance:							
Reserved for:							
Encumbrances	$ 107,951	$ 102,623	$ 149,675	$ 118,726	$ 78,879	$ 67,542	$ 67,542
Specific Purposes	53,587	69,272	60,217	36,525	41,718	43,454	13,154
Total Reserved Fund Balance	$ 161,538	$ 171,895	$ 209,892	$ 155,251	$ 120,597	$ 110,996	$ 80,696
Unreserved:							
Designated to Provide Operating Capital	$ 231,300	$ 295,900	$ —	$ 201,500	$ 161,233	$ 171,300	$ 171,300
Undesignated	56,955	97,157	201,520	8,383	47,126	25,210	25,210
Total Unreserved	$ 288,255	$ 393,057	$ 201,520	$ 209,883	$ 208,359	$ 196,510	$ 196,510
Total Fund Balance	$ 449,793	$ 564,952	$ 411,412	$ 365,134	$ 328,956	$ 307,506	$ 277,206

(1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting in accordance with GAAP for its Governmental Funds. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2004 – Note (2)."

(2) Net Operating Transfer in Fiscal Year 2001 included $48.8 million transferred to fund future debt service payments other than for 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) Total revenues and expenditures are in accordance with the Fiscal Year 2005 Budget as published by the Budget Department. The Fiscal Year 2005 Budget re-appropriated $30.3 million of ending fiscal year 2004 fund balance as reserved for specific purposes.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately $3.5 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also consists of approximately $468.0 million aggregate principal amount of leases with The Public Building Commission of Chicago (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS – Other Public Bodies – The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

Board's Overlapping Debt Schedule
as of December 2, 2005
(Dollars in Thousands)

	Amount
Direct Debt	
The Bonds	$ 325,000
Total Prior Bonds	3,546,793
Leases Securing PBC Bonds (principal component)	467,934
Total Direct Debt	$ 4,339,727

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt[1]			
City	$5,449,037	100.00%	$ 5,449,037
School Finance Authority	268,075	100.00%	268,075
Community College District	70,740	100.00%	70,740
Chicago Park District[2]	1,057,780	100.00%	1,057,780
Water Reclamation District	1,280,569	46.44%	594,645
Cook County	3,066,330	45.47%	1,394,325
Forest Preserve District	134,285	45.47%	61,062
Total Overlapping Debt			$ 8,895,664
Total Direct and Overlapping Debt			$ 13,235,391

Selected Debt Statistics

Population (2000)	2,896,016[4]
Equalized Assessed Valuation (2004)[3]	$ 55,283,639[5]
Estimated Fair Market Value (2003)	$263,482,258[6]

	Per Capita[7]	EAV	FMV
Direct Debt	$1,498.52	7.85%	1.647%
Total Direct and Overlapping Debt	$4,570.21	23.94%	5.023%

(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	$ 70,740,000
Chicago Park District	$ 24,060,000

(2) Includes $499,975,000 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. Equalized Assessed Value for tax levy year 2004.
(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. Estimated Fair Market Value is for levy year 2003.
(7) Per Capita amounts are not expressed as dollars in thousands.

Board's Debt Service Schedule
As of December 8, 2005

Calendar Year	Prior Bonds [1] [2]	PBC Leases	Series 2005D[3][4]	Series 2005E[4]	Total Annual Debt Service
2005	$159,922,226	$51,572,450			$211,494,676
2006	165,372,877	51,990,050	$5,448,781	$3,477,598	226,289,306
2007	171,180,455	52,037,000	12,956,845	4,760,210	240,934,510
2008	175,785,804	52,096,838	12,962,758	4,760,210	245,605,610
2009	250,773,529	52,103,825	12,966,520	4,760,210	320,604,084
2010	255,523,557	52,163,338	12,967,683	4,760,210	325,414,788
2011	270,232,836	52,232,025	12,970,683	4,760,210	340,195,754
2012	250,624,950	52,318,625	12,974,845	4,760,210	320,678,630
2013	271,638,963	52,359,513	5,750,883	12,019,819	341,769,178
2014	260,778,637	52,430,550	5,750,883	12,033,726	330,993,796
2015	271,561,044	52,467,613	5,750,883	12,051,741	341,831,281
2016	263,348,623	52,519,550	5,750,883	12,068,404	333,687,460
2017	260,431,455	52,600,125	5,750,883	12,088,258	330,870,721
2018	265,835,282	52,664,600	5,750,883	12,105,845	336,356,610
2019	290,464,920	30,635,500	5,750,883	12,125,708	338,977,011
2020	320,319,608	0	5,750,883	12,142,389	338,212,880
2021	320,313,040	0	5,750,883	12,165,338	338,229,261
2022	289,355,895	0	5,750,883	12,188,915	307,295,693
2023	311,470,294	0	5,750,883	12,207,663	329,428,840
2024	308,097,821	0	5,750,883	12,231,031	326,079,735
2025	304,433,754	0	5,750,883	12,253,379	322,438,016
2026	304,418,832	0	10,438,460	7,591,490	322,448,782
2027	274,201,614	0	18,058,244	0	292,259,858
2028	366,160,273	0	18,083,505	0	384,243,778
2029	305,375,940	0	18,114,999	0	323,490,939
2030	305,394,383	0	18,141,995	0	323,536,378
2031	305,395,301	0	18,173,760	0	323,569,061
2032	75,765,422	0	18,204,470	0	93,969,892
2033	43,858,795	0	18,238,302	0	62,097,097
2034	28,246,267	0	18,269,431	0	46,515,698
2035	13,142,838	0	18,306,942	0	31,449,780
2036	0	0	18,344,828	0	18,344,828
	$7,459,425,235	$762,191,602	$350,384,530	$197,312,564	$8,769,313,931

(1) Debt service payments include principal and interest due to and including the following January 1.

(2) Debt service payments reflect actual principal and interest payments for fixed rate bonds. Interest payments for bonds subject to swap agreements are calculated at the applicable swap rate (see table appearing herein entitled "Board's Interest Rate Swap Agreements"). Interest payments for variable rate bonds not subject to swap agreements are calculated at an assumed rate ranging from 4.5% to 6.0% by issuance; changes to the interest payments (from interest rate fluctuations) for these bonds will result in changes to this Debt Service Schedule.

(3) Interest on the Series 2005D-1 Bonds is calculated at an assumed rate of 4.5% per annum.

(4) Interest on the Series 2005D-2 Bonds and the Series 2005E Bonds is calculated at the swap rate of 3.6617%.

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

	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004
Equalized Assessed Valuation[1]	$35,361,964	$40,487,129	$41,988,859	$45,337,763	$53,175,365
Statutory Debt Limit, 13.8% of Equalized Assessed Valuation	$ 4,879,951	$ 5,587,224	$ 5,794,463	$6,256,611	7,338,200
Principal amount of bonds outstanding[2]	0	0	0	0	0
Principal amount of certificates of participation	0	0	0	0	0
Aggregate future rentals on leases with Public Building Commission	1,013,799	962,483	911,166	859,842	808,515
Less – Cash and investments on hand applicable to reduction of above debt	(37,921)	(38,379)	(37,965)	(37,486)	(36,226)
Net Funded Debt	$ 975,878	$ 924,104	$ 873,201	$822,356	$772,289
Unfunded Debt:					
Contracts, leases, purchase orders and outstanding judgments	136,682	185,554	146,367	108,828	100,346
Asbestos abatement loans	15,438	13,253	11,833	10,413	8,994
Net Unfunded Debt	152,120	198,807	158,200	119,241	109,340
Total Debt	$ 1,127,998	$ 1,122,911	$ 1,031,401	$941,597	$881,629
Statutory debt margin[2]	$ 3,751,953	$ 4,464,313	$ 4,763,062	$5,315,014	$6,456,571

(1) Represents Equalized Assessed Valuation as of June 30 of such fiscal year calculated at the end of the preceding tax levy year. For example, the Equalized Assessed Valuation shown in the table as of June 30, 2004 is for the tax levy year 2003.

(2) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect the other outstanding General Obligation Alternate Bonds including the Series 2005D and 2005E Bonds, which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Board's Interest Rate Swap Agreements

Series	Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2003B	Goldman Sachs	2/4/2003	2/13/2003	$110,026,500	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 - 3/01/33: 70% of Libor
	Bank of America	2/4/2003	2/13/2003	73,510,000	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 - 3/01/33: 70% of Libor
2003D	Lehman Brothers	12/8/2003	12/12/2003	$95,350,000	3/1/2034	3.771%	70% or Libor
	Goldman Sachs	12/8/2003	12/12/2003	90,000,000	3/1/2034	3.771%	70% of Libor
2004B	Goldman Sachs	3/31/2004	4/6/2004	$178,845,000	3/1/2032	3.544%	70% of Libor
	Bear Stearns	3/31/2004	4/6/2004	119,230,000	3/1/2032	3.544%	70% of Libor
	Bear Stearns	3/31/2004	4/6/2004	298,075,000	3/1/2032	70% of Libor	X% of Libor[(1)]
1997A	Bank of America	8/18/2005	12/1/2007[(2)]	$100,000,000	12/1/2030	5.25%	70% of Libor + .28%
2005A	Loop Capital Markets[(3)]	10/5/2005	11/1/2005	$116,151,000	12/1/2031	BMA Index	0.524 Fixed bp Spread
	Merrill Lynch & Co.	10/5/2005	11/1/2005	77,434,000	12/1/2031	BMA Index	80.76% Straight Ratio
2005D-2 & 2005E	Loop Capital Markets[(3)]	11/30/2005	12/8/2005	$287,055,000	3/1/2036	3.6617%	70% of Libor

(1) The percentage of Libor is a floating rate based on the following rate scale:

Libor	Percentage of Libor
Less than 1.55%	90%
Greater than 1.55% but less than 2.35%	77%
Greater than 2.35% but less than 3.45%	73%
Greater than 3.45% but less than 4.10%	71%
Greater than 4.10% but less than 6.00%	70%
Greater than 6.00%	65%

(2) Only upon exercise of option.
(3) Loop Capital Markets backed by Deutsche Bank.

Interest Rate Swap Agreements

In connection with the issuance of the Bonds, the Board will enter into a swap agreement (the "2005D-2 and Series 2005E Swap Agreement") in an aggregate notional amount of $287,055,000. The counterparty to the Series 2005D-2 and Series 2005E Swap Agreement is Loop Capital Markets (backed by Deutsche Bank). Under such agreement, the Board pays the swap provider a fixed rate of 3.6617% and receives an amount based on 70% of LIBOR from the provider. In all instances, the Board has entered into 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.

The swaps represented by the 1997A Swap Agreement, Series 2003B Swap Agreements, the Series 2003D Swap Agreements, the Series 2004B Swap Agreements, the 2005A Swap Agreements and the Series 2005D-2 and Series 2005E Swap Agreement (collectively, the "Swap Agreements"), expose the Board to certain risks. Should the market value of the swap 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 expected 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 swap provider may terminate a Swap Agreement under certain other conditions. If a Swap Agreement is terminated, the bonds subject to that Swap Agreement would no longer carry the expected fixed rate, and the Board would be subject to the interest rate risk associated with variable rate debt. Also, if, at the time of termination, a Swap Agreement has a negative market value, the Board would be liable to the applicable swap provider for a termination payment equal to the swap's market value. Such termination payment may be substantial.

The periodic payments to be made by the Board to the swap providers under the Swap Agreements are payable on a subordinate basis to the Bonds. See "SECURITY FOR THE BONDS – Payment of Debt Service on the Bonds and Swap Payments."

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 2004 – 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, 2004, 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 85.8%.

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 required to contribute $263 million to the Pension Fund in fiscal year 2006.

Debt Management Policy

The Board adopted a new Debt Management Policy (the "Debt Policy") on April 27, 2005. The purpose of the Debt Policy is to provide guidance 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, and when entering into derivative contracts, 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, its mix of fixed and variable rate debt, negotiated and competitive methods of sale, conditions in both domestic and international markets, credit enhancement agreements, the risks associated with various types of debt and/or derivative instruments, 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.

A copy of the Debt Policy is available at the Board's website at http://policy.cps.k12.il.us/documents/404.1pdf. 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. All investments of the moneys on deposit in the Funds and Accounts established under the Indenture are subject to the provisions of the Investment Policy as in effect.

A copy of the Investment Policy is available at the board's website at http://policy.cps.k12.il.us/documents/403.1.pdf. 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.

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 serve for a term of seven 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 2004 – 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, $268,075,000 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 and will be reassessed in 2006. The suburbs in the northern and northwestern portions of the County were last 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 Real Property Assessment Classification Ordinance (the "Classification Ordinance"), real property in the County is separated into nine classifications for assessment purposes. After the Assessor establishes the fair cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the "Assessed Valuation") for the parcel. The current classification percentages range from 16% 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 of 2000 and in August of 2001, the PTAB rendered 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 decision, known as Bosch, 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 decision, known as Lurie, 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.

The Board of Review, through the Cook County State's Attorney Office, appealed both Bosch and Lurie to the Illinois Appellate Court (the "Appellate Court"). On August 20, 2002, the Appellate Court issued an opinion in Bosch affirming in part and reversing in part 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 in Lurie concerning the two and one-half times level of assessment. In December of 2003, the Appellate Court ruled in Lurie 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 then appealed the Appellate Court's Lurie decision to the Illinois Supreme Court. On March 26, 2004, the Illinois Supreme Court denied the petitions for leave to

appeal. The property owner then filed a petition for writ of certiorari with the United States Supreme Court, which was denied on October 2, 2004.

In both Bosch and Lurie, 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 Cook 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. The Board considers the likelihood of the Court's sanctioning an alternate level of assessment to be remote.

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, 2004, see "– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1994-2004."

Exemptions. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of $5,500. Additional exemptions exist for (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by $3,000, 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 $75,000 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 $45,000 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 have capped the Longtime Homeowner Exemption at $20,000 in equalized assessed value per levy year.

In addition, the recent amendments to the Property Tax Code 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

An 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 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," which is defined 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 $5,000. 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 $5,000 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, an additional homestead exemption of $5,000 is available 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 believes 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. At this time, secondary impacts cannot be determined.

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 15, and the date for tax year 2004 was November 1, 2005. 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 by Cook County 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 (the "Limitation Law") 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 Valuation 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 Illinois Bond Issue Notification Act (the "Bond Issue Notification Act") requires a public hearing to be held by any 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 1994-2004

(Dollars in Thousands)

Tax Year Levy	Assessed Values[1] Class 2[5]	Class 3[6]	Class 5[7]	Other[8]	Total	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
2004	$12,998,216	$1,883,047	$10,401,428	$465,464	$25,738,155	2.5757	$55,283,639		
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	31.95

(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. Total Estimated Fair Cash Value for the year 2004 is not yet available.
(5) Residential, six units and under.
(6) Residential, seven units and over and mixed-use.
(7) Industrial/Commercial.
(8) Vacant, not-for-profit and industrial/commercial incentive classes.

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

		First Year Collections		Cumulative Collections[1]	
Levy Year[2]	**Extension**	**Amount**	**Percent**	**Amount**	**Percent**
2004	$1,734,478	$1,565,982	90.3%	$1,565,982	90.3%
2003	1,670,337	1,500,238	89.8	1,657,843	99.3
2002	1,614,473	1,548,369	95.9	1,585,108	98.2
2001	1,571,962	1,519,630	96.7	1,555,509	99.0
2000	1,503,488	1,446,847	96.2	1,477,247	98.3
1999	1,451,206	1,408,124	97.0	1,428,343	98.4
1998	1,416,346	1,317,872	93.0	1,381,371	97.5
1997	1,362,211	1,304,701	95.8	1,326,111	97.3
1996	1,331,437	1,293,278	97.1	1,282,215	96.3
1995	1,291,784	1,240,528	96.0	1,236,853	95.7

(1) Tax receivables are net of the Estimated Allowance for Uncollectible Taxes (the "Allowance"). The Allowance for the calendar year 2003 levy is 3.5% of the levy.
(2) The 2004 tax extension year reflects collections through November 30, 2005.

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	2004
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	$2.301
Special Education	0.039	0.038	0.000	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	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	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	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	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	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	0.131
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	0.000
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	0.576
PBC Lease Rentals	0.173	0.177	0.173	0.171	0.099	0.155	0.149	0.130	0.125	0.116	0.100	0.096
Board Subtotal	$4.323	$4.167	$4.251	$4.327	$4.084	$4.172	$4.104	$3.714	$3.744	$3.562	$3.142	$3.104
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	1.302
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	0.242
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	0.177
Chicago Park District	0.778	0.741	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.444
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	0.347
Cook County	0.971	0.993	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593
Cook County Forest Preserve	0.072	0.073	0.072	0.074	0.074	0.072	0.070	0.069	0.067	0.061	0.059	$0.060
Other Unit Subtotal	$5.051	$5.097	$5.094	$5.126	$4.759	$4.700	$4.432	$4.074	$3.948	$3.715	$3.291	$3.165
TOTAL	$9.374	$9.264	$9.345	$9.453	$8.843	$8.872	$8.536	$7.788	$7.692	$7.277	$6.433	$6.269

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

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

TAX MATTERS

The Internal Revenue Code of 1986 (the "Code") contains a number of requirements and restrictions that apply to the Bonds from and after the date of issuance, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of Bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The Board has covenanted to comply with all requirements of the Code that must be satisfied in order for interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to become includable in gross income retroactive to the date of issuance of the Bonds.

Subject to the condition that the Board complies with the foregoing covenants, under present law, in the opinion of Co-Bond Counsel the Bonds are not "private activity bonds" under the Section 141 of 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. Interest on the Bonds will be taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

In rendering its opinion, Co-Bond Counsel will rely upon certifications of the Board with respect to certain material facts solely within the Board's knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of the proceeds of the Bonds and certain other matters pertinent to the tax exemption of the Bonds.

Interest on the Bonds is not exempt from income taxes currently imposed by the State of Illinois.

Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Pursuant to Section 103 of the Code, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Bonds which may affect the taxation of certain types of owners, depending on their particular tax situations. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

RATINGS

The Series 2005D and Series 2005E Bonds are expected to receive ratings of "AAA/A-1+" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), "AAA/F1+" by Fitch, Inc. ("Fitch") and "Aaa/VMIG 1" by Moody's Investors Services ("Moody's") based on the Policy to be issued by the Bond Insurer for the Series 2005D and Series 2005E Bonds and the delivery of the Liquidity Facilities by the Banks.

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 may be resold.

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2004, included in APPENDIX A to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

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

Lehman Brothers, Inc., as Representative of the Underwriters identified on the cover page of this Official Statement, has agreed to purchase the Bonds at an aggregate purchase price of $324,425,690.00 (which represents par less an Underwriters' discount of $574,310.00). The Bonds will be offered to the public at the price of par, as set forth on the cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds, if they are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

The obligation of the Underwriters to accept delivery of and pay for the Bonds is subject to various conditions set forth in the Contract of Purchase relating to the 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 is subject to the issuance of the approving legal opinions of Mayer Brown Rowe & Maw LLP and Burke Burns & Pinelli, Ltd., both of Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinions is included herein as APPENDIX C. Certain legal matters will be passed upon for the Board by Patrick A. Rocks, General Counsel, by Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois; and for the Underwriters by their Co-Counsel, McGuireWoods LLP and Tyson Strong Hill, LLC, both of Chicago, Illinois; and for the Initial Banks by their special counsel, Chapman and Cutler LLP, Chicago, Illinois, and by their foreign counsel.

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, or in any way contesting the validity or enforceability of the Bonds of any series.

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.

Tort 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 or 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.

Dispute Over Pension Fund Payments

The Board entered into an agreement with the Chicago Teachers Union to pay $18 million to employees in the Chicago Teachers Union bargaining unit. The agreement resolved a grievance-arbitration action commenced by the Union over the Board's obligation under the 1999-2003 collective bargaining agreement to pay bargaining unit employees an amount equivalent to what the Board would have paid to pension funds in fiscal years 2001, 2002 and 2003 if all employee wages were subject to employer pension contributions. Prior to settlement, the Union claimed that the Board owed $39 million to employees for the three year period while the Board acknowledged that it owed the employees $10.8 million. The Board had previously recorded a liability of $16.2 million for this obligation.

EXEMPTION FROM CONTINUING DISCLOSURE UNDERTAKING

The Bonds will bear interest from the date of issuance in the Daily Mode, the Weekly Mode or the Flexible Mode. The Bonds are issued in denominations of $100,000 or integral multiples of $5,000 in excess thereof and the Bonds in the Daily Mode or Weekly Mode may be

tendered by the owners thereof at any time in seven (7) or fewer days, all as more fully described herein. Accordingly, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and the Board has not undertaken to provide any continuing disclosure information required by the Rule. In order to convert the Bonds to the Term Rate Mode, the Fixed Mode or the Auction Rate Mode and to remarket those converted Bonds, it will be necessary to either establish a further exemption from Rule 15c2-12 or for the Board to enter into a written undertaking to provide continuing disclosure information in accordance with the Rule as such Rule may be in effect at such time.

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 2004

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Deloitte.

Deloitte & Touche LLP
180 N. Stetson Avenue
Chicago, IL 60601-6779
USA

Tel: +1 312 946 3000
Fax: +1 312 946 2600
www.deloitte.com

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, 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2004, 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.

As described in Note 1 to the basic financial statements, The CPS adopted the provisions of Governmental Accounting Standards Board Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*," Statement No. 40, "*Deposit and Investment Risk Disclosures*," and Statement No. 44, "*Economic Condition Reporting: The Statistical Section*" as of and for the year ended June 30, 2004.

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. This supplementary information is the responsibility of the CPS' management. 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 such information and we do not express an opinion on it.

Deloitte & Touche LLP

December 17, 2004

Member of
Deloitte Touche Tohmatsu

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis (MD&A)
June 30, 2004

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, 2004. 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.

The 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 approximately 434,000 students with a fiscal year 2004 operating budget of almost $3.84 billion and a capital budget of $688 million. In general, the financial operations of CPS have performed well during uncertain financial times with varying financial indicators and results. On the expenditure side, CPS' monitoring of the budget resulted in administrative staff reductions and budget cuts which served to reduce overall expenditures, but only slightly impacted educational resources. At the end of fiscal year 2004, 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.

During fiscal year 2004, CPS adopted GASB Statement 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. There was no resulting impact on the financial statements.

During fiscal year 2004, CPS also adopted GASB Statement 40, *Deposit and Risk Disclosures, an amendment to GASB Statement No. 3*, which addresses common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk, as applicable. Please refer to Note 4, Cash and Investments for the required disclosures.

During fiscal year 2004, CPS also adopted GASB Statement 44, *Economic Condition Reporting: The Statistical Section* amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section

presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. Please refer to the Statistical Section for the new required information.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- On the government-wide financial statements:
  - Total net assets decreased from $1.0 billion in fiscal year 2003 to $791.2 million in fiscal year 2004, a decrease of approximately $213.3 million, or 21.2%.
  - Total revenues increased $164.6 million from $3.93 billion in fiscal year 2003 to $4.10 billion in fiscal year 2004, or 4.2%.
  - Total expenses increased $222.1 million from $4.09 billion in fiscal year 2003 to $4.31 billion in fiscal year 2004, or 5.4%.
- On the fund financial statements:
  - Ending fund balance decreased from $1.16 billion in fiscal year 2003 to $1.12 billion in fiscal year 2004, a decrease of $37.2 million, or 3.2%.
  - In the General Operating Fund, unreserved funds decreased from $208.4 million in fiscal year 2003 to $196.5 million in 2004, a decrease of $11.8 million, or 5.7%.
  - Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by $37.1 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			
	2004	2003	Difference	% Change
Current assets	$ 2,898	$ 2,882	$ 16	0.6%
Capital assets, net	4,075	3,882	193	5.0
Total Assets	$ 6,973	$ 6,764	$ 209	3.1
Current liabilities	$ 932	$ 830	$ 102	12.3
Long-term liabilities	5,250	4,930	320	6.5
Total Liabilities	$ 6,182	$ 5,760	$ 422	7.3
Net Assets:				
Invested in capital assets net of related debt	$ 455	$ 392	$ 63	16.1
Debt service	391	457	(66)	(14.4)
Specific purposes	43	88	(45)	(51.1)
Unrestricted	(98)	67	(165)	(246.3)
Total Net Assets	$ 791	$ 1,004	$ (213)	(21.2)

- **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 $192.5 million or 5.0% over the prior fiscal year. This net increase represents $510.4 million of additions and other increases, $191.1 million of retirements and other reductions, net of $144.7 million of current year depreciation and $18 million of other decreases and transfers to in-service. Capital assets, net of depreciation, for fiscal year 2003 totaled $3.88 billion and $4.07 billion in fiscal year 2004. The increase is due to the continued progress of the Capital Improvement Program.

- **Long-term liabilities** are comprised of three components:

    - **Long-term debt** increased $179.1 million, or 4.6%. Total debt outstanding and capitalized leases were $3.88 billion in fiscal year 2003 and $4.07 billion in fiscal year 2004. In fiscal year 2004, CPS issued $766 million in Unlimited Tax Obligation Bonds ($761.4 million from Series 2004A,B and 2003D and $4.6 million from QZAB Series 2003C). CPS used $480.7 million of the proceeds to partially retire prior debt issuances, thereby saving $47.5 million in future debt service. The remaining $285.3 million was used to fund the Capital Improvement Program.

    - **Accrued pension** increased to $1.04 billion in fiscal year 2004 from $894.7 million in fiscal year 2003, an increase of $145.2 million, or 16.2%. The year end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.

    - **Other long-term liabilities** increased to $297.5 million in fiscal year 2004 from $258.1 million in fiscal year 2003, an increase of $39.4 million, or 15.3%. The year end balance reflects increases in accrued sick pay, accrued vacation pay, accrued workers' compensation, accrued general and automobile liability and tort claims of $14.8 million, $1.8 million, $23.3 million, $5.2 million and $1.5 million, respectively.

Statement of Activities
(millions of dollars)

	Governmental Activities			
	2004	2003	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	$ 10	$ 13	$ (3)	(23.1)%
Operating grants and contributions	791	764	27	3.5
Capital grants and contributions	161	154	7	4.5
Total Program Revenues	$ 962	$ 931	$ 31	3.3
General Revenues:				
Property taxes	$ 1,561	$ 1,574	$ (13)	(0.8)
Replacement taxes	120	106	14	13.2
State aid	1,333	1,249	84	6.7
Interest and investment earnings	40	49	(9)	(18.4)
Miscellaneous	79	22	57	259.1
Total General Revenues	$ 3,133	$ 3,000	$ 133	4.4
Total Revenues	$ 4,095	$ 3,931	$ 164	4.2
Expenses:				
Instruction	$ 2,663	$ 2,485	$ 178	7.2
Support services				
Pupil support	344	333	11	3.3
Administrative support	177	169	8	4.7
Facility support	339	352	(13)	(3.7)
Instructional support	351	333	18	5.4
Food services	189	177	12	6.8
Community services	50	47	3	6.4
Interest expense	188	186	2	1.1
Other	8	5	3	60.0
Total Expenses	$ 4,309	$ 4,087	$ 222	5.4
Change in Net Assets	$ (214)	$ (156)	$ (58)	37.2

Total revenues increased $164.6 million primarily due to increases in operating grants and contributions, replacement taxes, state aid, and other miscellaneous revenue totaling $26.6 million, $14.5 million, $84.5 million and $57.1 million, respectively. These increases were offset by decreases in property taxes and investments totaling $13.0 million and $9.7 million, respectively.

Total expenses increased $222.1 million primarily due to the increases in salaries of $95.2 million related to the new teacher contract, $23.0 million in tuition costs and $32.6 million in hospitalization benefits costs.

Capital Assets

At June 30, 2004, the CPS had $4.1 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 $192.5 million or 5.0% over the prior fiscal year ($000's).

	Governmental Activities					
	2003	Additions	Retirements and Transfers to In-Service	2004	Difference	% Change
Land	$ 197,819	$ 20,691	$ —	$ 218,510	$ 20,691	10.5%
Buildings	5,101,812	166,404	(17,959)	5,250,257	148,445	2.9%
Construction in progress	264,615	311,315	(166,024)	409,906	145,291	54.9%
Equipment	66,297	12,024	(7,124)	71,197	4,900	7.4%
Total Capital Assets	$ 5,630,543	$ 510,434	$ (191,107)	$ 5,949,870	$ 319,327	5.7%
Less: Accumulated depreciation	(1,748,136)	(144,747)	17,959	(1,874,924)	(126,788)	7.3%
Total Capital Assets, net	$ 3,882,407	$ 365,687	$ (173,148)	$ 4,074,946	$ 192,539	5.0%

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

Long-term Debt and Capitalized Lease Obligations

In October 2003, the Board issued $4.6 million in Qualified Zone Academy 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 $4.5 million from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies within the District.

In December 2003, CPS issued $257.9 million 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, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $250.1 million 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.

In April 2004, CPS issued $205.4 million in Unlimited Tax General Obligation Refunding Bonds (Series 2004A) and $298.1 in Unlimited Tax General Obligation Bonds (Series 2004B). The proceeds from these bonds are being used to refund a portion of Series 1996, 1997 and 2000A bonds, and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of $519.0 million were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on $58.5 million of the Series 1996 bonds, $317.0 million of the Series 1997 bonds and $90.4 million of the Series 2000A bonds. As a result, these refunded bonds are

considered to be defeased. The Series 2004B bonds were issued as Auction Rate Securities (variable rate) with a final maturity date of March 1, 2032 in four sub-series as follows:

As of June 30, 2004, the CPS had $4.11 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus $3.88 billion last year, an increase of 5.8%. A summary of the long-term debt and capitalized lease obligations are listed in the following table:

	Governmental Activities (Millions of Dollars)				
	2003	Issuances	Retirements	Accreted Interest	2004
Unlimited Tax General Obligation Bonds	$ 3,114	$ 761	$ (481)	$ 44	$ 3,438
Qualified Zone Academy Bonds	48	5	—	—	53
State Technology Revolving Loan	2	—	(2)	—	—
Asbestos Abatement Loans	11	—	(1)	—	10
Total	$ 3,175	$ 766	$ (484)	$ 44	$ 3,501
Capitalized Lease Obligations	706	—	(99)	—	607
Total Debt	$ 3,881	$ 766	$ (583)	$ 44	$ 4,108
Less: Current Year Portion					(153)
Less deferred amounts:					
On Refunding					(68)
For Net Premiums/(Discounts)					26
Total Long-Term Debt, Net					$ 3,913

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, 2004, net of bonds advance refunded or defeased, is $329 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.

In February and March 2004, the CPS remarketed certain of the SFA's outstanding bonds, while in March 2004, SFA refunded certain outstanding maturities. The remarketing and refunding resulted in $10.8 million of funds becoming available to the CPS. In May 2004, the Authority issued $21.6 million in general obligation limited tax bonds, which when combined with an additional refunding issue resulted in funds of $22.3 million becoming available to CPS. These funds have been recorded in the Debt Service Fund for future use.

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, 2003, the funded ratio of the Pension Fund was approximately 92.0% and the CPS has recorded an estimated pension liability of $1.04 billion 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, however, during fiscal year 2004, CPS contributed $65.0 million in addition to providing $7 million to settle certain claims related to prior years early retirement initiatives. The first year that CPS is required to make a contribution to the Pension Fund under the statutory requirements is fiscal year 2006.

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 2004, as in previous fiscal years, the CPS paid a portion, 7%, or $31.7 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, 2004 as compared to June 30, 2003. It also depicts the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

Revenues and Other Financing Sources

(Millions of dollars)	2004 Amount	2003 Amount	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease) from 2003
Property taxes	$ 1,571	$ 1,546	36.2%	$ 25	1.6%
Replacement taxes	120	106	2.8	14	13.2
State aid	1,481	1,470	34.1	11	0.7
Federal aid	731	609	16.8	122	20.0
Investment income	40	49	0.9	(9)	(18.4)
Other	149	94	3.4	55	58.5
Subtotal	$ 4,092	$ 3,874	94.2%	$ 218	5.6
Other financing sources	253	317	5.8	(64)	(20.2)
Total	$ 4,345	$ 4,191	100.0%	$ 154	3.7

- **Property taxes** increased by $24.7 million from fiscal year 2003 due to a growing tax base, increases in tax levies which are subject to state legislated caps, less the impact of an allowance for uncollectible taxes that increased the percentage used from 2.5% to 3.5%.
- **Personal property replacement taxes** increased $14.5 million from fiscal year 2003 due to the improving economy.
- **State aid** increased $11.9 million due to improved grant management. The monitoring of grants improved throughout the year thereby reducing grant overspending and ensuring the timely closure of grant funded positions.
- **Federal aid** increased by $121.8 million due to increased grant funding and subsidies.
- **Investment income** decreased by $9.6 million due to lower cash balances.
- **Other revenue** increased by $54.9 million due to proceeds related to the restructuring of Chicago School Finance Authority debt, increased private donations and increased local pension contributions for educational support personnel.

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, 2004 and 2003, and the percentage increase and decrease in relation to prior year amounts.

Expenditures

(Millions of dollars)	2004 Amount	2003 Amount	2004 Percent of Total	Increase (Decrease) from 2003	Percent Increase (Decrease) from 2003
Instruction	$ 2,355	$ 2,215	53.7%	$ 140	6.3%
Pupil support services	328	320	7.5%	8	2.5%
General support services	771	765	17.6%	6	0.8%
Food services	181	170	4.1%	11	6.5%
Community services	50	47	1.2%	3	6.4%
Teachers' pension	65	65	1.5%	—	0.0%
Capital outlay	365	444	8.3%	(79)	(17.8)%
Debt service	260	255	5.9%	5	2.0%
Other	7	12	0.2%	(5)	(41.7)%
Total	$ 4,382	$ 4,293	100.0%	$ 89	2.1%

- **Instruction** increased due to:
  - Salaries which increased $140.3 million primarily due to the new teacher contract, teacher salary step increases, cost of living adjustments and the hiring of additional teachers and employee medical and hospitalization costs which increased $32.3 million due to higher provider costs.
- **Capital outlay** decreased by $78.5 million. The decrease in capital outlay of 18% is due to the completion of projects in the capital improvement program.
- **Total expenditures** increased $88.9 million from $4.293 billion in fiscal year 2003 to $4.382 billion in fiscal year 2004, or an increase of 2.0%.

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 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.
- Actual General Operating Fund revenues for fiscal year 2004 were $3.72 billion and actual general operating fund expenditures were $3.76 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 August 2004, the Board adopted a balanced budget for fiscal year 2005 that reflected total resources, including $30.3 million of available fund balances, and appropriations of $4.05 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, 2004

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Cash and investments	$ 743,966
Cash and investments in escrow	811,041
Cash and investments held in school internal accounts	26,001
Property taxes receivable, net of allowance	854,719
Other receivables:	
Replacement taxes	19,242
State aid, net of allowance	332,460
Federal aid	66,592
Other	15,459
Other assets	28,677
Capital assets, net of accumulated depreciation	4,074,946
Total Assets	$ 6,973,103
LIABILITIES:	
Accounts payable	$ 263,455
Accrued payroll and benefits	461,607
Amount held for student activities	26,001
Other accrued liabilities	113
Interest payable	26,836
Current portion of long-term debt and capitalized lease obligations	153,451
Long-term liabilities:	
Debt, net of premiums and discounts	3,436,944
Capitalized lease obligations	476,044
Pension	1,039,998
Other benefits and claims	297,500
Total Liabilities	$ 6,181,949
NET ASSETS:	
Invested in capital assets, net of related debt	$ 454,841
Restricted for:	
Debt service	390,882
Specific purposes	43,454
Unrestricted	(98,023)
Total Net Assets	$ 791,154

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 Fiscal Ended June 30, 2004

(Thousands of Dollars)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$ 2,663,014	$ 210	$ 392,916	$ 104,190	$ (2,165,698)
Support services:					
Pupil support services	343,777	—	20,477	14,495	(308,805)
Administrative support services	176,858	—	70,672	7,457	(98,729)
Facility support services	339,213	—	14,239	12,914	(312,060)
Instructional support services	350,717	—	86,939	13,722	(250,056)
Food services	189,475	9,620	167,174	6,777	(5,904)
Community services	50,401	—	38,892	1,874	(9,635)
Interest Expense	187,646	—	—	—	(187,646)
Other	8,128	—	—	—	(8,128)
Total Governmental Activities	$ 4,309,229	$ 9,830	$ 791,309	$ 161,429	$ (3,346,661)

General Revenues:	
Taxes:	
Property taxes	$ 1,561,127
Replacement taxes	120,427
State aid	1,333,113
Interest and investment earnings	39,501
Miscellaneous	79,229
Total General Revenues	$ 3,133,397
Change in net assets	$ (213,264)
Net assets — beginning	1,004,418
Net assets — ending	$ 791,154

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, 2004

Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
ASSETS:				
Cash and investments	$ 546,063	$ 190,746	$ 7,157	$ 743,966
Cash and investments in escrow	5,322	484,371	321,348	811,041
Cash and investments held in school internal accounts	26,001	—	—	26,001
Receivables:				
Property taxes, net of allowance	827,493	—	27,226	854,719
Replacement taxes	19,242	—	—	19,242
State aid, net of allowance	308,703	23,757	—	332,460
Federal aid	65,132	1,460	—	66,592
Other	8,538	2,262	4,659	15,459
Due from other funds	182,991	642	59,263	242,896
Other assets	4,238	—	—	4,238
Total Assets	$ 1,993,723	$ 703,238	$ 419,653	$ 3,116,614
LIABILITIES AND EQUITY:				
LIABILITIES:				
Accounts payable	$ 196,490	$ 66,904	$ 7,176	$ 270,570
Accrued payroll and benefits	415,651	—	—	415,651
Amount held for student activities	26,001	—	—	26,001
Due to other funds	33,752	208,531	613	242,896
Deferred property tax revenue	814,821	—	26,849	841,670
Other deferred revenue	199,502	55	—	199,557
Total Liabilities	$ 1,686,217	$ 275,490	$ 34,638	$ 1,996,345
EQUITY:				
Fund Balances:				
Reserved:				
Reserved for encumbrances	$ 67,542	$ 224,188	$ —	$ 291,730
Reserved for restricted donations	1,439	—	—	1,439
Reserved for specific purposes	42,015	—	—	42,015
Reserved for debt service	—	—	385,015	385,015
Unreserved:				
Designated to provide operating capital	171,300	—	—	171,300
Undesignated	25,210	203,560	—	228,770
Total Equity	$ 307,506	$ 427,748	$ 385,015	$ 1,120,269
Total Liabilities and Equity	$ 1,993,723	$ 703,238	$ 419,653	$ 3,116,614

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, 2004
(Thousands of Dollars)

Total fund balances — governmental funds		$ 1,120,269
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		5,854
Deferred charges — bond issuance costs		18,586
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 are 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		5,949,870
Accumulated depreciation		(1,874,924)
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 is 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	$ (3,459,345)	
Capitalized lease obligations	(607,094)	
Pension	(1,039,998)	
Other benefits and claims	(336,453)	
Legal settlement	(7,000)	
Other accrued liabilities	(113)	
		(5,450,003)
Interest payable		(19,725)
Revenues that have been deferred in the governmental funds but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		841,670
Other deferred revenue		199,557
Net Assets		$ 791,154

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, 2004

With Comparative Amounts for the Fiscal Year Ended June 30, 2003

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2004	Total Fiscal Year Ended June 30, 2003
REVENUES:					
Property taxes	$ 1,520,557	$ —	$ 50,508	$ 1,571,065	$ 1,546,335
Replacement taxes	61,897	—	58,530	120,427	105,960
State aid	1,329,390	82,682	69,376	1,481,448	1,469,567
Federal aid	703,821	26,683	—	730,504	608,693
Interest and investment income	18,779	8,109	12,613	39,501	49,161
Other	87,545	12,370	49,338	149,253	94,345
Total Revenues	$ 3,721,989	$ 129,844	$ 240,365	$ 4,092,198	$ 3,874,061
EXPENDITURES:					
Current:					
Instruction	$ 2,355,114	$ —	$ —	$ 2,355,114	$ 2,214,781
Pupil support services	327,653	—	—	327,653	320,380
Administration support services	168,563	—	—	168,563	163,185
Facilities support services	291,900	—	—	291,900	304,300
Instructional support services	310,166	—	—	310,166	296,517
Food services	180,588	—	—	180,588	170,238
Community services	49,933	—	—	49,933	47,253
Teacher's pension and retirement benefits	65,045	—	—	65,045	65,045
Capital outlay	—	365,336	—	365,336	443,873
Debt service	1,420	—	258,170	259,590	255,239
Other	8,128	—	—	8,128	12,322
Total Expenditures	$ 3,758,510	$ 365,336	$ 258,170	$ 4,382,016	$ 4,293,133
REVENUES LESS THAN EXPENDITURES	$ (36,521)	$ (235,492)	$ (17,805)	$ (289,818)	$ (419,072)
OTHER FINANCING SOURCES (USES)					
Gross amounts from debt issuances	$ —	$ 257,339	$ 508,656	$ 765,995	$ 308,635
Premiums	—	—	21,043	21,043	8,803
Payment to refunded bond escrow agent	—	—	(534,375)	(534,375)	—
Transfers in/(out)	15,071	15,144	(30,215)	—	—
TOTAL OTHER FINANCING SOURCES (USES)	$ 15,071	$ 272,483	$ (34,891)	$ 252,663	$ 317,438
REVENUES AND OTHER FINANCING SOURCES (USES) LESS THAN EXPENDITURES	$ (21,450)	$ 36,991	$ (52,696)	$ (37,155)	$ (101,634)
Fund Balances, beginning of period	328,956	390,757	437,711	1,157,424	1,259,058
Fund Balances, end of period	$ 307,506	$ 427,748	$ 385,015	$ 1,120,269	$ 1,157,424

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, 2004

(Thousands of Dollars)

Total net change in fund balances — governmental funds		$ (37,155)
Capital outlay 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 expenses in the Statement of Activities. This is the amount by which capital outlay exceeds the depreciation in the period.		
Capital outlay/equipment	$ 344,410	
Depreciation expense	(144,747)	199,663
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		(231,620)
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		109,978
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		(46,352)
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		(12,725)
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		(9,938)
Grants		13,704
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		(1,500)
Sick pay		(14,795)
Vacation pay		(1,770)
Workers' compensation		(23,275)
General and automobile liability		(5,234)
Net pension obligation		(152,245)
Change in Net Assets		$ (213,264)

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 AND CHANGES IN FUND BALANCES
FINAL APPROPRIATIONS VS ACTUAL — GENERAL OPERATING FUND
For the Fiscal Year Ended June 30, 2004
(Thousands of Dollars)

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
REVENUES:					
Property taxes	$ 1,524,700	$ —	$ 1,524,700	$ 1,520,557	$ (4,143)
Replacement taxes	50,924	—	50,924	61,897	10,973
State aid	1,318,942	—	1,318,942	1,329,390	10,448
Federal aid	779,014	—	779,014	703,821	(75,193)
Interest and investment income	16,440	—	16,440	18,779	2,339
Other	77,000	—	77,000	87,545	10,545
Total Revenues	$ 3,767,020	$ —	$ 3,767,020	$ 3,721,989	$ (45,031)
EXPENDITURES:					
Salaries —					
Teachers	$ 1,744,353	$ 72,257	$ 1,816,610	$ 1,820,063	$ (3,453)
Career services	475,975	46,682	522,657	520,267	2,390
Commodities —					
Energy	56,188	4,794	60,982	63,233	(2,251)
Food	91,608	(1,301)	90,307	96,712	(6,405)
Textbooks	49,521	34,784	84,305	74,377	9,928
Supplies	27,117	19,309	46,426	42,380	4,046
Other	1,045	445	1,490	1,306	184
Services —					
Professional and construction	169,775	65,497	235,272	226,306	8,966
Transportation	107,831	(1,095)	106,736	96,775	9,961
Tuition	117,289	30,574	147,863	145,225	2,638
Telephone and telecommunications	4,571	266	4,837	6,208	(1,371)
Other	25,070	1,008	26,078	19,431	6,647
Equipment — Educational	18,067	27,972	46,039	43,315	2,724
Building and sites —					
Repairs and replacements	47,807	2,057	49,864	45,353	4,511
Capital outlay	—	33	33	15	18
Fixed charges —					
Teachers' pension	197,074	4,647	201,721	194,511	7,210
Career service pension	79,131	3,217	82,348	79,498	2,850
Hospitalization and dental insurance	254,933	6,419	261,352	229,045	32,307
Medicare	28,778	(1,227)	27,551	25,480	2,071
Unemployment compensation	2,666	—	2,666	4,711	(2,045)
Workers compensation	14,329	1,948	16,277	16,997	(720)
Rent	9,287	(497)	8,790	7,974	816
Debt service	1,450	—	1,450	1,420	30
Other	316,806	(317,789)	(983)	(2,092)	1,109
Total Expenditures	$ 3,840,671	$ —	$ 3,840,671	$ 3,758,510	$ 82,161
REVENUES LESS THAN EXPENDITURES	$ (73,651)	$ —	$ (73,651)	$ (36,521)	$ 37,130
OTHER FINANCING SOURCES					
Transfers in	15,071	—	15,071	15,071	—
TOTAL OTHER FINANCING SOURCES REVENUES AND OTHER FINANCING SOURCES LESS THAN EXPENDITURES	$ (58,580)	$ —	$ (58,580)	$ (21,450)	$ 37,130
Fund Balances, beginning of period	328,956	—	328,956	328,956	—
Fund Balances, end of period	$ 270,376	$ —	$ 270,376	$ 307,506	$ 37,130

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, 2004

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 City of Chicago, the Chicago School Finance Authority, the Public Building Commission of Chicago and the Public School Teachers' Pension and Retirement Fund of Chicago are deemed to be related organizations but separate entities and are not included as part of the CPS reporting entity. No fiscal dependency exists between these organizations. These units are excluded from the CPS reporting entity because they do not meet the criteria for inclusion as established by GASB.

New Accounting Standards

During fiscal year 2004, CPS adopted GASB Statement 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. There was no resulting impact on the financial statements.

During fiscal year 2004, CPS adopted GASB Statement 40, *Deposit and Risk Disclosures, an amendment to GASB Statement No. 3*, which addresses common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk, as applicable. Please refer to Note 4, Cash and Investments for the required disclosures.

During fiscal year 2004, CPS adopted GASB Statement 44, *Economic Condition Reporting: The Statistical Section* amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. Please refer to the Statistical Section for the new additional required information.

Other accounting standards that CPS is currently reviewing for applicability include:

- GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries;*
- GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and;*

- GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Description of Government-Wide Financial Statements

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

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

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

Government-Wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not identified as program revenues are reported as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year end. For this purpose, the CPS considers revenues,

other than property taxes, that are susceptible to accrual to be available if they are collected within 90 days of fiscal year end. 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 is maintained, consistent with legal and managerial requirements. A description of the activities of the various funds is provided below.

Governmental Funds

a. General Operating Fund

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

Educational Program
Supplementary General State Aid Program
School Food Service Program
Improving America's Schools Act Program
Education of the Handicapped Program
Medicare Program
Workers' and Unemployment Compensation/Tort Immunity Program
Public Building Commission Operations and Maintenance Program
Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

Bond Redemption and Interest Program — This program is for the receipt and expenditure of Replacement Taxes, City of Chicago Intergovernmental Agreement revenue, State of Illinois Construction

Grants, General State Aid and other revenues as designated by the Board for the payment of interest and principal on specific bond issues.

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

Due to change in accounting estimate in fiscal year 2004, CPS now records as its property taxes receivable amounts equal to the current year tax levy plus the two years prior levies net of an allowance for estimated uncollectible amounts. The allowance is recorded at 3.5% of the gross levy. As a result of the change, $15.5 million of receivables were written off the government-wide financial statements..

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2003 property taxes were levied for fiscal year 2004 in December 2003, and were billed in fiscal year 2004. In 2004, the installment due dates were March 2 and November 15. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. The treasurers of Cook and DuPage counties, who distribute such receipts to the CPS, receive collections of property tax installments. 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 Board passes the levy for the current fiscal year.

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

Capital Assets

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

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

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

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

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

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

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

Vacation and Sick Pay

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

Long-term Obligations

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

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

Fund Balances and Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

The Statement of Net Assets include the following:

Investment in Capital Assets, net of Related Debt — the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance

of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

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

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

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

Comparative Data

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

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

In June 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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

In August 2004, the Board adopted a balanced budget for fiscal year 2005 that reflected total resources, including $30.3 million of available reserved fund balances, and appropriations of $4.05 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 2004. 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. Tax amounts collected in excess of the specified prior years levies is recorded in the year of receipt without impacting receivable and deferred revenue balances. CPS maintains the accounts receivable, reserves for uncollectibles and deferred revenue balance on the general ledger for three tax levy years. All refunds, no matter what tax year they apply, are recorded against the property tax revenue and cash accounts in the period of occurrence or notification from the respective county treasurer.

Legal limitations on tax rates and the rates extended in calendar years 2004 and 2003 are shown below.

	Maximum 2004 Legal Limit	Tax Rates Extended Per $100 of EAV	
		2004	2003
General Operating Fund:			
Educational	(A)	$ 2.258	$ 2.670
Medicare	(B)	.000	.017
Workers' and Unemployment Compensation/Tort Immunity	(B)	.219	.150
Public Building Commission Operation and Maintenance	(B)	.565	.609
Public Building Commission Lease Program	(B)	.100	.116
		$ 3.142	$ 3.562

A. The 2004 Educational tax rate is limited to the sum of $3.04 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.

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

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	$ 592,533	$ 592,533
Supplementary General State Aid	261,000	261,000
General Education Block Grant	117,602	117,602
Educational Services Block Grant	349,844	363,222
Capital Grants	127,682	127,682
Other Restricted State Revenue	32,787	33,135
Total State Aid	$ 1,481,448	$ 1,495,174

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.

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. Repurchase agreement collateral shall not be less than 1.02%. 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, 2004, the book amount of the CPS' deposit accounts was $8.7 million. The bank balance as of June 30, 2004, was $39.8 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, 2004. 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 bank balance for checking and investments for individual schools.

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, 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.

The CPS' Investment Policy contains the following stated objectives:

- Safety of Principal. Investments shall be undertaken in a manner that provides for the preservation of principal in the overall portfolio.
- Liquidity. The investment portfolio shall be sufficiently liquid to meet all reasonably anticipated operating and cash flow requirements.
- Rate of Return. The investment portfolio shall be constructed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

At June 30, 2004, the CPS had the following investments (000's) and maturities:

Investment Type	Carrying Amount	Maturities Less Than 1 Year	Category 3
Repurchase Agreements	$ 486,853	$ 486,853	$651
U.S. Government Agency Securities	559,422	559,422	—
Commercial Paper	88,045	88,045	—
Money Market Mutual Funds	438,020	438,020	—
	$ 1,572,340	$ 1,572,340	$651

Credit Risk — State law and the CPS' Investment Policy limits investment in commercial paper to the top two ratings issued by at least two standard rating services. As of June 30, 2004, Moody's Investment Service rated the CPS' investments in commercial paper A1+ or A1 by Standard and Poor's, and P-1. As of June 30, 2004, Standard and Poor's rated the CPS' investments in money market mutual funds AAAm as required by the CPS' Investment Policy.

Custodial Risk — During the fiscal year ended June 30, 2004, repurchase agreements were supported by collateral with an aggregate market value equal to at least 102% of amounts invested. The collateral consisted of securities that were permissible under the CPS Investment Policy. Third-party custodians held all collateral in CPS' name. At June 30, 2004, certain repurchase agreements were not collateralized at their contracted amounts. Subsequent to year end, the required collateral was provided.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2004 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows ($000's):

	Fund Financial Statements	Government-Wide Financial Statements
Property taxes	$ 913,181	$ 913,181
Replacement taxes	19,242	19,242
State aid	336,302	336,302
Federal aid	66,592	66,592
Other	15,459	15,459
Total Receivables	$ 1,350,776	$ 1,350,776
Less: Allowance for uncollectibles	(62,304)	(62,304)
Total Receivables, net	$ 1,288,472	$ 1,288,472

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, 2004, the components of deferred revenue reported in the fund financial statements are as follows ($000's):

Deferred property taxes	$ 841,670
Other deferred revenue	199,557
Total Deferred Revenue	$ 1,041,227

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 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	$ 197,819	$ 20,691	$ —	$ 218,510
Construction in progress	264,615	311,315	(166,024)	409,906
Total capital assets not being depreciated	$ 462,434	$ 332,006	$ (166,024)	$ 628,416
Capital assets being depreciated:				
Buildings and improvements	$ 5,101,812	$ 166,404	$ (17,959)	$ 5,250,257
Equipment and administrative software	66,297	12,024	(7,124)	71,197
Total capital assets being depreciated	$ 5,168,109	$ 178,428	$ (25,083)	$ 5,321,454
Total Capital Assets	$ 5,630,543	$ 510,434	$ (191,107)	$ 5,949,870
Less accumulated depreciation for:				
Buildings and improvements	$ (1,721,180)	$ (140,659)	$ 17,959	$ (1,843,880)
Equipment and administrative software	(26,956)	(4,088)	—	(31,044)
Total accumulated depreciation	$ (1,748,136)	$ (144,747)	$ 17,959	$ (1,874,924)
Capital Assets, net of depreciation	$ 3,882,407	$ 365,687	$ (173,148)	$ 4,074,946

NOTE 6. CAPITAL ASSETS (continued)

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

Governmental activities:	
Instruction	$ 93,808
Pupil support services	13,051
Administrative support services	6,714
Facility support services	11,627
Instructional support services	12,354
Food services	7,193
Total Depreciation	$ 144,747

Construction Commitments

The CPS had active construction projects as of June 30, 2004. These projects include new construction and renovations of schools. At year-end, the CPS had approximately $224.2 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.

The following represent interfund balances among all funds at June 30, 2004 ($000's):

General Operating Fund:	
Due from Capital Improvement Program	$ 182,378
Due to Capital Asset Program	(642)
Due to Bond Redemption and Interest Program	(33,110)
Due from Public Building Commission Leases Program	613
Total — Due from other Funds	$ 149,239
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 642
Capital Improvement Program — Due to Bond Redemption and Interest Program	(26,153)
Capital Improvement Program — Due to General Operating Fund	(182,378)
Total — Due to other Funds	$ (207,889)
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	$ 33,110
Bond Redemption and Interest Program — Due from Capital Improvement Program	26,153
Public Building Commission Leases Program — Due to General Operating Fund	(613)
Total — Due from other Funds	$ 58,650

NOTE 7. INTERFUND TRANSFERS AND BALANCES (continued)

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, 2004, CPS made operating transfers of $15.1 million from the Bond Redemption and Interest Program to the Capital Improvement Program to in order to provide additional capital funding and to transfer $15.1 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 2004:

Qualified Zone Academy Bonds (Series 2003C)

In October 2003, the Board issued $4,585,000 in Qualified Zone Academy 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 $4,474,244 from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies within the District.

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, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds $250,504,263 in the Capital Improvement Fund. The Series 2003D bonds were issued as Auction Rate Securities (variable rate) with a final maturity date of March 1, 2034 in four sub-series as follows:

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

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

Unlimited Tax General Obligation Refunding Bonds (Series 2004A,B)

In April 2004, CPS issued $205,410,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2004A) and $298,075,000 in Unlimited Tax General Obligation Bonds (Series 2004B). The proceeds from these bonds are being used to refund a portion of Series 1996, 1997 and 2000A bonds, and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of $518,978,318 were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on $58,505,000 of the Series 1996 bonds, $317,020,000 of the Series 1997 bonds and $90,435,000 of the Series 2000A bonds. As a result, these refunded bonds are considered to be defeased. The Series 2004B bonds were issued as Auction Rate Securities (variable rate) with a final maturity date of March 1, 2032 in four sub-series as follows:

Sub-series	Par Amount	Rate Reset Period
Series 2004B-1	$ 75,000,000	35-day
Series 2004B-2	75,000,000	35-day
Series 2004B-3	75,000,000	35-day
Series 2004B-4	73,075,000	35-day
Total Par Amount	$ 298,075,000	

Broker-Dealers for each sub-series are Bear Stearns & Co., Inc., Citigroup Global Markets, Merrill Lynch, Ramirez & Co., SBK Brooks Investment Corp.

Upon closing the Series 2004B bonds, CPS entered into three interest rate swap agreements (see Note 10. Derivative Instruments).

The advance refunding resulted in a difference between the reacquistion price and the net carrying amount of the old debt of $67.5 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2032. CPS completed the advance refunding to reduce its total debt service payments over the next 28 years by $66.2 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $47.5 million.

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, 2003	Issuances	Retirements	Principal Outstanding June 30, 2004	Accreted Interest	Principal and Accreted Interest June 30, 2004
2004B	$ —	$ 298,075	$ —	$ 298,075	$ —	$ 298,075
2004A	—	205,410	—	205,410	—	205,410
2003D	—	257,925	—	257,925	—	257,925
2003C	—	4,585	—	4,585	—	4,585
2003A	75,890	—	—	75,890	—	75,890
2003B	183,775	—	—	183,775	—	183,775
2002A	48,970	—	—	48,970	—	48,970
2001C	217,260	—	(3,390)	213,870	—	213,870
2001B	9,440	—	—	9,440	—	9,440
2001A	44,430	—	(710)	43,720	—	43,720
2000E	13,390	—	—	13,390	—	13,390
2000B,C,D	303,000	—	—	303,000	—	303,000
2000A	106,960	—	(90,435)	16,525	—	16,525
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	532,554	—	—	532,554	91,628	624,182
1998B-1	328,714	—	—	328,714	108,856	437,570
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	—	499,995	16,004	515,999
1997	477,085	—	(325,015)	152,070	—	152,070
1996	122,390	—	(61,105)	61,285	—	61,285
Total Bonds	$ 2,989,853	$ 765,995	$ (480,655)	$ 3,275,193	$ 216,488	$ 3,491,681
STRL	2,058	—	(2,058)	—	—	—
Asbestos Abatement	10,413	—	(1,419)	8,994	—	8,994
Total Long-Term Debt	$ 3,002,324	$ 765,995	$ (484,132)	$ 3,284,187	$ 216,488	$ 3,500,675
Less Current Portion						(22,401)
Deferred Amounts:						
On Refunding						(67,512)
For Net Premium/(Discount)						26,182
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						$ 3,436,944

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

Bonds	$ (24,125)
Asbestos Abatement Loans	(1,420)
Refunding	3,144
Total Current Portion	$ (22,401)

NOTE 8. LONG-TERM DEBT (continued)

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.

The refunding described above represents unamortized debt refunding related to the issuance of the Unlimited Tax General Obligation Refunding Bonds (Series 2004A,B).

Defeased Debt

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at June 30, 2004 are as follows (000's):

Description	Amount Defeased	Amount Outstanding
Unlimited Tax General Obligation Bonds Series 2000A	$ 90,435	$ 90,435
Unlimited Tax General Obligation Bonds Series 1997	317,020	317,020
Unlimited Tax General Obligation Bonds Series 1996	58,505	58,505
Total	$ 465,960	$ 465,960

Future debt and associated swap payments (see Note 10). Interest rates on fixed rate bonds range from 2.5% to 6.75%, except that CPS does not pay or accrue interest on the Series 2001B Bonds, the Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own the Series 2001B bonds will be entitled to a credit against taxable income. Interest rates on variable rate bonds and net swap payments assume the debt service deposit requirement rate and that auction rates as of June 30, 2004 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			
	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	Total
2005	$ 20,200	$ 81,231	$ 3,925	$ 29,982	$ 13,937	$ 149,275
2006	21,850	78,626	4,125	29,786	14,964	149,351
2007	19,875	77,595	4,350	29,580	14,964	146,364
2008	25,124	76,993	4,550	29,362	14,964	150,993
2009	28,000	76,275	4,825	29,135	14,964	153,199
2010-2014	424,181	490,302	51,450	138,902	74,821	1,179,656
2015-2019	446,533	460,793	100,875	122,228	74,338	1,204,767
2020-2024	529,670	497,884	248,200	98,284	63,648	1,437,686
2025-2029	472,218	484,960	400,275	57,958	37,663	1,453,074
2030-2034	244,767	436,570	220,200	12,379	10,688	924,604
Total	$ 2,232,418	$ 2,761,229	$ 1,042,775	$ 577,596	$ 334,951	$ 6,948,969

* Interest on Series 2000B,C,D variable rate demand notes was calculated at an assumed rate of 6% per annum and interest on Series 2003D unhedged auction rate bonds was calculated at an assumed rate

NOTE 8. LONG-TERM DEBT (continued)

of 5% per annum (equals annual debt service deposit requirement). Interest on auction rate securities assumes current interest rates remain the same as of June 30, 2004 and was calculated as follows:

Series 2003B — 1.162%
Series 2003D — 1.228%
Series 2004B — 1.262%

** Series 2003B computed: (3.782% – 1.05%) x Outstanding Principal
Series 2003D computed: (3.771% – 0.95813%) x Outstanding Principal
Series 2004B computed: (3.5439% – 0.95813% + 0.999%) x Outstanding Principal

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

Series	Accreted Interest June 30, 2003	Increase	Accreted Interest June 30, 2004	Total Accretable Interest	Remaining Accretable Interest
1997A	$ 13,195	$ 2,809	$ 16,004	$ 53,485	$ 37,481
1998B-1	87,345	21,511	108,856	816,756	707,900
1999A	72,589	19,039	91,628	617,287	525,659
	$ 173,129	$ 43,359	$ 216,488	$ 1,487,528	$ 1,271,040

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.

NOTE 9. CAPITALIZED LEASE OBLIGATIONS (continued)

The future PBC leases due at June 30, 2004, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals
2005	$ 167,906
2006	51,359
2007	51,765
2008	51,800
2009	51,838
2010-2014	259,574
2015-2019	260,216
2020	30,636
Total Rentals	$ 925,094
Less — Interest and other costs	(318,000)
Principal amount of rentals due	$ 607,094

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

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004
PBC Leases	$ 698,899	$ —	$ (91,805)	$ 607,094
Capitalized Lease Obligations	7,124	—	(7,124)	—
Total	$ 706,023	$ —	$ (98,929)	$ 607,094
Less: Current Portion of PBC Leases				(131,050)
Total PBC Leases and Capitalized Lease Obligations Outstanding				$ 476,044

NOTE 10. DERIVATIVES INSTRUMENTS

Interest Rate Swaps

Series 2003B

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

Swap terms. The bonds and the related swap agreements mature on March 1, 2033, and the total notional amount of the swaps equals the $183,775,000 of Series 2003B variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 3.782% and receives a variable payment computed at the Bond Market Association Municipal Swap Index™ (BMA) until March 1, 2007, then computed as 70% of the London Interbank Offered Rate (LIBOR) from March 1, 2007 through March 1, 2033.

Fair value. Because interest rates have risen since execution of the swaps, the swaps had a positive fair value as of June 30, 2004. The swaps' positive 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, 2004 (see table below).

Credit risk. As of June 30, 2004, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps become negative, CPS would not 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 is "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap is 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, 2004

Counterparty	Swap Notional Amount	Credit Rating; Outlook		Swap Fair Value
		Moody's	S&P	
Goldman Sachs	$ 110,265,000	A1	A+; stable	$ 1,622,751
Bank of America	73,510,000	Aa2	AA–; stable	1,003,588
Total	$ 183,775,000			$ 2,626,339

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, 2004, the weighted average auction rate was 1.162% and the BMA rate was 1.05%. As of June 30, 2004 the BMA rate was 1.05%, whereas 70% of LIBOR was 0.958%. To mitigate the potential for basis risk, CPS funded 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.

Series 2003D

Swap Objective. CPS entered into two interest rate swaps associated with the issuance of the Series 2003D bonds in December 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 certain of the auction rate bonds to a fixed interest rate of 3.771%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2034, and the total notional amount of the swaps equals the $185,350,000 of Series 2003D variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 3.771% and receives a variable payment computed at the 70% of the London Interbank Offered Rate (LIBOR) through March 1, 2034.

Fair value. Because interest rates have risen since execution of the swaps, the swaps had a positive fair value as of June 30, 2004. The swaps' positive 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, 2004 (see table below).

Credit risk. As of June 30, 2004, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps become negative, CPS would not 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 is "A–"/"A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap is 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, 2004

Counterparty	Swap Notional Amount	Credit Rating; Outlook		Swap Fair Value
		Moody's	S&P	
Lehman Brothers	$ 95,350,000	A1	A+; stable	$ 1,068,279
Goldman Sachs	90,000,000	A1	A+; stable	1,063,077
TOTAL	$ 185,350,000			$ 2,131,356

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the 70% of LIBOR rate received by the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.771% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2004, the weighted average auction rate was 1.228% and 70% of LIBOR was 0.958%. To mitigate the potential for basis risk, CPS funded a reserve of $3,000,000 upon closing the bonds to provide for potential basis differential, and annual debt service fund deposit is calculated at a rate of 3.891%.

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 2003D 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.

Series 2004B

Swap Objective. CPS entered into three interest rate swaps associated with the issuance of the Series 2004B bonds in April 2004 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 3.5439%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2032, and the total notional amount of the swaps equals the $298,075,000 of Series 2004B 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 two of the swap agreements, CPS pays each counterparty a fixed payment of 3.5439% and receives a variable payment computed at 70% of the London Interbank Offered Rate (LIBOR) through March 1, 2032. Under the third swap agreement, which allows CPS to better hedge against the associated variable rate debt, CPS receives either a lower percentage of LIBOR in a high interest rate environment, or a higher percentage of LIBOR in a low interest rate environment, based on the following scale:

LIBOR	Percentage of LIBOR
Less than 1.55%	90%
Greater than 1.55% but less than 2.35%	77%
Greater than 2.35% but less than 3.45%	73%
Greater than 3.45% but less than 4.10%	71%
Greater than 4.10% but less than 6.00%	70%
Greater than 6.00%	65%

Fair value. Because interest rates have risen since execution of the swaps, the swaps had a net positive fair value as of June 30, 2004. The swaps' positive 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, 2004 (see table below).

Credit risk. As of June 30, 2004, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps become negative, CPS would not 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 is "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap is collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

NOTE 10. DERIVATIVES INSTRUMENTS (continued)

Swap Counterparty Data as of June 30, 2004

Counterparty	Swap Notional Amount	Credit Rating; Outlook		Swap Fair Value
		Moody's	S&P	
Goldman Sachs	$ 178,845,000	A1	A+; stable	$ 7,864,846
Bear Stearns	119,230,000	Aaa	AAA; stable	5,167,674
Bear Stearns	298,075,000	Aaa	AAA; stable	(3,723,481)
TOTAL	$ 596,150,000			$ 9,309,039

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the rates received by the swap counterparty. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.5439% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2004, the weighted average auction rate was 1.190% and the 70% of LIBOR rate was 0.958%, however under the third swap agreement, the total rate received by the swap counterparty was 90% of the LIBOR rate which was 1.232%. To additionally mitigate the potential for basis risk, CPS's annual debt service fund deposit is calculated at a rate of 3.6639%.

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 2004B 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, 2003	Additions	Payments	Balance June 30, 2004
Accrued Sick Pay Benefits	$ 208,618	$ 51,435	$ (36,640)	$ 223,413
Accrued Vacation Pay Benefits	46,192	7,449	(5,679)	47,962
Accrued Workers' Compensation Claims	35,068	39,975	(16,700)	58,343
Accrued General and Auto Claims	—	5,234	—	5,234
Tort Liabilities and Other Claims	—	1,500	—	1,500
Total	$ 289,878	$ 105,593	$ (59,019)	$ 336,452
Less: Current Portion of Accrued Sick Pay Benefits				(33,147)
Less: Current Portion of Accrued Vacation Pay Benefits				(5,805)
Total Other Long-term Liabilities				$ 297,500

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

Sick Pay Benefits

The CPS provides sick pay benefits for substantially all of its employees. As of June 30, 2004, eligible employees can accumulate a maximum of 315 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, General and Automobile and 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 2004, 2003 and 2002 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.

The CPS' estimate of liabilities for workers' compensation claims, general and automobile claims and tort is based on reserves established by the respective trial attorneys or the claims administrators. The CPS accrues for the estimated workers' compensation, general and automobile claims 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 $33.7 million has been recorded in the General Operating Fund for estimated medical claims incurred but not reported as of June 30, 2004. Following is the activity related to medical claims for which the CPS is self-insured ($000's):

Balance June 30, 2002	Additions	Payments	Balance June 30, 2003	Additions	Payments	Balance June 30, 2004
$ 49,954	$ 141,528	$ (154,462)	$ 37,020	$ 172,978	$ (176,343)	$ 33,655

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.

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2003, the most recent report, there were 36,548 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 2004, as in previous fiscal years, the CPS paid a portion (7% – $109.2 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. 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. For fiscal year 2004, CPS did not receive a specific appropriation from the state of Illinois for a contribution to the pension fund. State law requires statutorily determined CPS employer contributions. The CPS' employer contributions towards the cost of retirement benefits, and their related sources of funding, are as follows ($000's):

Retirement benefit contribution:	
A contribution from the Chicago Public Schools	$ 65,045
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	13,208
Sub-total	$ 78,253
Additional contribution from legal settlement	7,000
Total contributions	$ 85,253

For the fiscal year ended June 30, 2004, employee contributions are $140.4 million which is 9% of covered payroll. Employer contributions for the year are $85.3 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 governmental 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 $78.3 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of $109.2 million, which total $187.5 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 government-wide financial statements reflect pension expense representing the change in net pension obligation and the $7.0 million additional contributions from legal settlements.

NOTE 12. PENSION BENEFITS (continued)

The CPS' annual pension cost for fiscal years 2004, 2003 and 2002 are as follows ($000's):

	2004	2003	2002
Annual required contribution (ARC)	$ 202,971	$ 160,196	$ 178,855
Interest on Net Pension Obligation (NPO)	71,580	59,973	50,149
Adjustment to annual required contribution	(44,053)	(36,911)	(30,865)
Annual Pension Cost (APC) for the fiscal year ended June 30, 2004	$ 230,498	$ 183,258	$ 198,139
Less: Contributions made	(85,253)	(78,172)	(75,337)
Add: Segregated health care benefits	n/a	40,000	n/a
Increase in NPO	$ 145,245	$ 145,086	$ 122,802
Add NPO, beginning of year	894,753	749,667	626,865
NPO, end of year	$ 1,039,998	$ 894,753	$ 749,667

Actuarial valuation date	June 30, 2003
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 and for fiscal year 2004, 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.

For the fiscal years 2003, 2002 and 2001, the Fund spent $40 million, $44 million and $51 million, respectively, for retiree medical premiums which included the $40 million and prior year carryover amounts as allowed by statute. As a result, at June 30, 2003, the Fund had $9 million available for premium expenditures.

At June 30, 2003, 2002 and 2001 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2003	2002	2001
Actuarial value of assets	$ 10,494,755	$ 10,619,061	$ 10,387,569
Less: Actuarial Accrued Liability (AAL)	(11,411,528)	(11,025,482)	(10,392,705)
AAL unfunded liability (surplus)	$ 916,773	$ 406,421	$ 5,136
Funded ratio	92.0%	96.3%	99.9%
Covered payroll	$ 1,706,205	$ 1,759,046	$ 1,690,264
Unfunded AAL as a percentage of covered payroll	53.7%	23.1%	0.3%

As discussed above, the amount shown for the actuarial value of pension assets for 2003 and 2002 exclude amounts allocated/transferred to the Health Insurance Fund.

	2004	2003	2002
Annual pension cost	$ 230,497	$ 183,253	$ 198,139
Percentage of annual pension cost contributed	37.0%	20.8%	38.0%
Net Pension Obligation	$ 1,039,997	$ 894,753	$ 749,667

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, 2004.

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.

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 2004, as in previous fiscal years, the CPS agreed to pay a portion (7% – $31.7 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 $79.5 million, $31.7 million of this amount represents the required employees' contribution paid by the CPS on behalf of its employees, and $42.8 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining $5 million is funded under Federally-funded programs. The

NOTE 12. PENSION BENEFITS (continued)

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 $79.5 million.

As of December 31, 2003, the date of the latest available report, the Annuity Fund had net assets of approximately $5.92 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $1.6 billion. The CPS employs approximately 15,000 of the 35,384 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.

In February and March 2004, the CPS remarketed certain of the Authority's outstanding bonds, while in March 2004, the Authority refunded certain outstanding maturities. The result of the remarketing and refunding resulted in $10,784,451 of funds becoming available to the CPS. In May 2004, the Authority issued $21,620,000 principal amount of general obligation limited tax bonds, which when combined with an additional refunding issue resulted in funds of $22,325,800 available to CPS. These funds have been recorded in the Debt Service Fund for future use.

The amount of Authority bonds outstanding at June 30, 2004, net of bonds advance refunded or defeased is $328,920,000. The Authority's bonds are not a direct or contingent obligation of the CPS.

The principal amount of general obligation bonds of the Authority at June 30, 2004 is shown below:

	Maturities		
Fiscal Year(s)	Principal and Sinking Fund Installments	Interest	Total
2005	$ 60,845	$ 17,892	$ 78,737
2006	80,090	14,478	94,568
2007	60,190	10,242	70,432
2008	61,150	6,941	68,091
2009	66,645	3,606	70,251
Total	$ 328,920	$ 53,159	$ 382,079

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

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)

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 RESERVATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Reservation

On the fund financial statements, the Fund Balance Reserved for Specific Purposes consists of the following ($000's):

Purpose	Reserved Amount
Workers' Compensation/Tort Immunity	$ 5,605
Supplementary General State Aid	32,352
Public Building Commission Operations and Maintenance	4,058
Total	$ 42,015

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2003 Supplementary General State Aid allocation.

In its fiscal year 2004 budget, CPS appropriated in its General Operating Fund $73.6 million of fund balances from amounts reserved for specific purposes.

In its fiscal year 2004 budget, CPS designated $161.3 million to provide working capital. In its fiscal year 2005 budget, CPS has designated $171.3 million to provide working capital.

During fiscal year 2004, the Board reserved $385.0 million for Debt Service of which $242.4 million was allocated to the Bond Redemption and Interest Program and the remaining $142.6 million was allocated to the Public Building Commission Leases Program.

b. Net Assets Restrictions

On the government-wide financial statements, Net Assets Restricted for Specific Purposes consists of the following:

Purpose	Restricted Amount
Restricted Donations	$ 1,439
Specific Purposes	42,015
Total	$ 43,454

NOTE 15. LITIGATION AND CONTINGENCIES

a. 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 intends to continue to litigate this matter vigorously and will now ask the Illinois Supreme Court to review the delegation issue.

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.

b. Property Tax Appeals Board (PTAB) Decisions

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

The Cook County Board of Review (the "Board of Review"), through a Cook County State's Attorney, appealed the March 2000 and August 2001 decisions of the PTAB to the Illinois Appellate Court. On

August 20, 2002, the Illinois Appellate Court issued an opinion affirming in part and reversing in part the March 2000 decision concerning the PTAB's use of the Sales-Ratio Studies. The PTAB challenged that decision by filing a petition for re-hearing asking the Illinois Appellate Court to reconsider portions of its decision. On June 30, 2003, the Illinois Appellate Court denied the PTAB's petition for re-hearing. Shortly thereafter, the PTAB filed a petition for leave to appeal with the Illinois Supreme Court, which is currently pending. In November of 2002, the Illinois Appellate Court heard oral arguments on the appeal of the PTAB's August 2001 decision concerning the two and one-half times level of assessment. 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 petitions 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.

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.

c. 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, 2004, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2004.

d. 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.

e. Wrongful Death Claim

In *Della Coleman, as Special Administrator of the Estate of Derrick Spencer v. Board of Education*, the family of Derrick Spencer, an eighth grade student, filed suit against the Board and Quality Inn Hotels for damages arising from Derrick's drowning while on a field trip with other eighth grade students from the Goldblatt Elementary School. The drowning occurred in Ohio on May 24, 2002, after one of Derrick's classmates pushed him into the pool at the Quality Inn Hotel. The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at Quality Inn Hotel; failing to assess Derrick's swimming skills; failing to monitor the Goldblatt students in and around the swimming pool; failing to follow Board policies regarding school trips, and; failing to protect Derrick from the dangerous water conditions at the Quality Inn Hotel. A finding of liability on the part of CPS cannot be predicted as either probable nor remote at this juncture.

f. 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.

g. Chicago Teachers Union Grievance

CTU alleges that the Board violated the IELRA when it refused to implement an arbitration award to reinstate three full-time basis substitute teachers who were discharged for cause in 1995 and 1996.

The action arises out of grievances filed on behalf of the three discharged teachers that were submitted to arbitration in 1997. The Board refuses to appear and defend at arbitration on the grounds that the power to hire and to reinstate employees was an exclusive, non-delegable power of the Board. The arbitration proceeded without Board participation and three arbitrators awarded the employees reinstatement and full back pay. The Board refused to implement the awards; an unfair labor practice charge followed and the IELRB ruled that the Board violated the IELRA by refusing to implement those awards.

The Board appealed the IELRB's decision to the Illinois Appellate Court. Chicago Board of Education v. Illinois Educational Labor Relations Board, (*"Brown"*). The Appellate Court reversed and remanded the matter to the IELRB. In doing so, the Appellate Court held that arbitrators had no power to reinstate the employees because the power to hire and reinstate was an exclusive non-delegable power of the Board. It remanded the cases to the IELRB to determine an alternate remedy for the employees. The IELRB, in turn, remanded the matters to arbitration for an award of an alternate remedy.

While the grievances were pending on remand, the Illinois Supreme Court issued its decision in Land v. Chicago Board of Education, and the Illinois Appellate Court issued its decision in Chicago Teachers Union v. Illinois Educational Labor Relations Board (*"Pittard"*). In Land the Illinois Supreme Court held that the Illinois School Code does not prohibit the Board from delegating the powers to hire, fire, and layoff. In *Pittard*, the Illinois Appellate Court ruled that Land effectively overruled *Brown* and that the power to hire, and therefore to reinstate, could be delegated. The Appellate Court further ruled that 2003 amendments to the Illinois School Code clarified that those powers could be, and in fact were, delegated by the Board to arbitrators.

On remand, the arbitrator ruled that the impediment to the original awards of reinstatement to the three teachers no longer existed and reinstated the original awards. The Board has refused to implement this decision.

Back pay to the three employees is currently estimated at $1,500,000 before setoffs. While the Board is vigorously defending the claim, the liability is likely, therefore, CPS has recorded an accrual for $1.5 million in the government-wide financial statements.

h. Unfair Labor Practices

This is an unfair labor practice charge in which Service Employees International Union, Local 73 (SEIU) alleges that the Board's decision to contract the "Cradle to Classroom" program to social service agencies and layoff the 120 employees in the program while a SEIU petition to represent those employees was pending violated the IELRA. The IELRB is investigating the charge.

The major issue is whether organizing drive was the motivating factor in the decision to contract the program and layoff employees. The Board's decision to contract the services is temporally connected to SEIU's organizing efforts however, there is evidence that the contracting decision would have been made regardless of the organizing effort due to the Board's budget cuts and the fact that the program had historically exceeded its budget.

If the IELRB finds for SEIU, it will likely order that the Board reinstate the employees and pay back wages plus mandatory statutory interest of seven percent (7%) per annum. The potential damages are $4,200,000.

The Board is vigorously defending the charge in the investigatory stages of the action. It is also simultaneously bargaining with SEIU over the impact and effects of the contradicting decision as required by the Act. It is impossible to predict the outcome of this matter, however, if a final ruling is issued against the Board, the award will likely be in excess of $4,200,000.

i. Property Tax Refunds

Involves disputes regarding property taxes payable by Hilton for its leasehold in the Chicago O'Hare Hilton Hotel (the fee interest is non-taxable City of Chicago property.) Hilton's annual rent to the City of Chicago includes (i) a percentage rent based upon the hotel's gross revenues, and (ii) a required annual expenditure by Hilton for capital improvements on the real estate. Hilton has argued that annual capital expenditures should not be included in the rent calculation. The Board disputes the position. The parties also dispute the potential revenue growth and the appropriate discount rate for determining the present value of the income stream. Finally, the parties dispute the applicability of the Cook County assessment classification ordinance.

Hilton is seeking a refund of taxes attributable to the Board of an aggregate amount of approximately $5,300,000 for the years 1999-2002. Absent a settlement of the issues, this matter will likely proceed to trial in the next few years. At this juncture, it is impossible to predict the likely outcome of this matter. The Board believes that Hilton is unlikely to obtain refunds in excess of $1,000,000 for any individual year, although in the aggregate, if Hilton succeeds on the applicability of the Cook County assessment argument the total refunds would exceed $1,000,000.

j. Matters Pending Before Administrative Agencies

Eight individual Equal Employment Opportunity Commission (EEOC) charges brought by reassigned teachers were referred to the Department of Justice (DOJ) for review in 2000. If the DOJ determines that there appears to be an unlawful discriminatory basis for the reassignments (e.g.; the reassignments were based on race, age, disability, etc.) and initiates a class action on behalf of those teachers, and

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

others similarly situated, the Board's liability would exceed $1,000,000. It is impossible to determine whether an ultimate finding of liability against the Board in an amount exceeding $1,000,000 is either probable or remote.

k. 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, 2004, 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, 2004.

NOTE 16. SUBSEQUENT EVENTS

Unlimited Tax General Obligation Bonds (Series 2004CDE)

In November 2004, CPS issued $222,080,000 in Unlimited Tax General Tax Obligation Bonds. 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. The Series 2004CDE bonds were issued as Auction Rate Securities (variable rate) in four sub-series as follows:

Series	Par Amount	Maturity Date
Series 2004C-1	$ 75,410,000	March 1, 2031
Series 2004C-2	48,910,000	March 1, 2035
Series 2004D	53,030,000	March 1, 2023
Series 2004E	44,730,000	March 1, 2015
Total	$ 222,080,000	

The Series 2004C-1 will bear interest at a Daily Rate and the Series 2004C-2, Series 2004D and Series 2004E will bear interest at a Weekly Rate. As a result of the issuance, CPS recorded net proceeds of $217,008,506 in the Capital Improvement Program in fiscal year 2005.

Teacher Pension Fund Settlement

In November 2004, CPS entered into a $7 million agreement with the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") in settlement of all outstanding issues related to the 1993-94 Early Retirement Initiative. CPS recorded an accrual for this amount in fiscal year 2004.

Unlimited Tax General Obligation Bonds (Series 2004 FGH)

In December 2004, CPS issued $56,000,000 in Unlimited Tax General Obligation Bonds (Series 2004 FGH). These bonds will be used to renovate, rehabilitate and equip the Albany Park Academy Project, Benito Juarez Community Academy Project, and DePriest Elementary School Project.

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APPENDIX B

Summary of Certain Provisions of the Indenture

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APPENDIX B-1

Summary of Certain Provisions of the Indenture for the Series 2005D Bonds

The following is a summary of certain provisions of the Indenture for the Series 2005D Bonds not summarized elsewhere in this Official Statement. Reference is made to such 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 by the Board 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 State Aid Revenues with the Bonds and the Prior Bonds, as described in this APPENDIX B under the heading "Additional Bonds Payable from Pledged State Aid Revenues."

"*Adjustment Date*" means (a) the Date of Issuance, (b) any date which is the first day of an Adjustment Period, (c) any Substitute Adjustment Date, and (d) any proposed Term Rate Conversion Date or Fixed Rate Conversion Date.

"*Adjustment Period*" means, with respect to each Bond, each period commencing on an Adjustment Date for such Bond to and including the day immediately preceding the immediately succeeding Adjustment Date for such Bond (or the Maturity Date thereof), during which period such Bond shall operate in one type of Interest Mode.

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

"*Auction Rate Documents*" means any Auction Agent Agreement, Broker-Dealer Agreement or other agreement required to be executed and delivered at any time in order to effectuate the Auction Procedures in connection with any Auction Rate Mode designated by the Board hereunder.

"*Auction Rate Mode*" means an Interest Mode during which the rate of interest borne by the Bonds is determined in accordance with the Indenture.

"*Authorized Denominations*" means, (i) with respect to a particular Bond in a Short Mode, $100,000 and any multiple of $5,000 in excess thereof, (ii) with respect to a particular Bond in a Term Rate Mode, $5,000 and any integral multiple thereof, (iii) with respect to a particular Bond in an Auction Rate Mode, $25,000 and any integral multiple thereof, and (iv) after the Term Rate Conversion Date or Fixed Rate Conversion Date with respect to a particular Bond, $5,000 and any integral multiple thereof.

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

"*Bank*" means the Initial Bank or any provider then obligated under a Liquidity Facility delivered in accordance with the terms of the Indenture.

"*Bank Approval*" means the written approval of the Bank, if such approval is required pursuant to the then-applicable Liquidity Agreement.

"*Bank Bonds*" means Tendered Bonds purchased with moneys drawn under the Liquidity Facility pursuant to the Indenture, which are owned by the Bank or its permitted assigns in accordance with the Liquidity Agreement or the Custody Agreement, if any, until such Bonds are remarketed by the Remarketing Agent pursuant to the Remarketing Agreement and the Bank is in receipt of the principal amount thereof, plus accrued interest thereon at the Bank Rate or such Bonds lose their characterization as Bank Bonds pursuant to the Liquidity Agreement.

"*Bank Obligations*" means the Board's obligations under the Liquidity Agreement (including, without limitation, the Board's obligations to pay the principal of and interest on any Bank Bonds at the Bank Rate).

"*Bank Rate*" means with respect to any Bank Bond, such interest rate or sequence of rates (which may be stated as a formula and may be determined by reference to a specified index or indices) as is specified in the Liquidity Agreement then in effect pursuant to which such Bank Bond was purchased. Notwithstanding the foregoing, at no time shall the Board pay interest on Bank Bonds at a rate higher than the Maximum Interest Rate.

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

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

"*Bondholder*" means the Owner of any Bond.

"*Bond Insurance Policy*" means the Initial Bond Insurance Policy to be delivered by the Initial Bond Insurer to the Trustee on the Date of Issuance, unless and until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter "Bond Insurance Policy" means any Substitute Bond Insurance Policy delivered by a Substitute Bond Insurer and accepted by the Trustee in substitution therefor pursuant to the Indenture.

"*Bond Insurance Substitution Date*" means the day on which a Substitute Bond Insurance Policy becomes effective.

"*Bond Insurer*" means the Initial Bond Insurer, as issuer of the Initial Bond Insurance Policy, until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter

"Bond Insurer" means a Substitute Bond Insurer as the obligor on any Substitute Bond Insurance Policy accepted by the Trustee in substitution therefor pursuant to the Indenture.

"*Bond Insurer Approval*" means the written approval of the Bond Insurer, if such approval is required pursuant to the Indenture or any applicable Insurance Agreement.

"*Bond Insurer Obligations*" means the Board's obligations to the Bond Insurer pursuant to the Indenture or in connection with the Bond Insurance Policy or any applicable Insurance Agreement.

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

"*Bond Purchase Fund*" means the trust fund so designated which is created and established pursuant to the Indenture.

"*Bond Resolution*" means, Resolution No. 05-116-RS4, adopted by the Board on the 16th day of November, 2005, authorizing the issuance of the Bonds.

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

"*Bonds*" means, collectively, the $195,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D of the Board, being initially issued under the Indenture as follows: the $37,945,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D-1 and the $157,055,000, Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D-2 being issued under this Indenture, and any Bonds issued hereunder in substitution or replacement therefor, and includes any Bank Bonds from time to time Outstanding.

"*Broker-Dealer*" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Indenture, that is a member of, or a direct participant in, the Securities Depository, and that is a party to a Broker-Dealer Agreement with the Auction Agent. The Board shall retain the right to appoint additional Broker-Dealers without obtaining the consent of any other Broker-Dealer.

"*Business Day*" means any day other than a Saturday, Sunday or (i) a day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer or the Bond Insurer's custodian at which claims under the Bond Insurance Policy are to be paid (initially, New York, New York) is located, (c) in the city in which the principal United States office of the Bank at which requests for purchase of Tendered Bonds under the Liquidity Agreement are to be honored is located, (d) in the city in which the corporate trust office of the Trustee or the Trustee's Agent at which the Bonds may be tendered for purchase by the holders thereof is located, (e) in the city in which the principal office of the Auction Agent is located and (f) in the city in which the principal office of the Remarketing Agent is located, are required or authorized to remain closed or (ii) a day on which The New York Stock Exchange is closed.

"*Code*" or "*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 internal 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.

"*Custody Agreement*" means a custody agreement or a pledge and security agreement (which may also be the Liquidity Agreement), if any, entered into by the Trustee, as custodian, and the Bank, and any and all amendments and supplements thereto, relating to Bank Bonds.

"*Daily Mode*" means the Mode during which the Bonds bear interest at the Daily Rate.

"*Daily Rate*" means the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

"*Date of Issuance*" means the date of original issuance and delivery of the Bonds hereunder.

"*Defaulted Interest*" means interest on any Bond which is payable but not duly paid on the date due.

"*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.

"*Delivery Office*" means for the Remarketing Agent, such address as shall be specified in any Remarketing Agreement delivered pursuant to the Indenture.

"*Deposit Date*" means February 15 of each year beginning February 15, 2007 or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes described under the heading "SECURITY FOR THE BONDS—Application of Pledged State Aid Revenues; Abatement of Pledged Taxes."

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

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

"*DTC*" means The Depository Trust Company, New York, New York, as the initial Securities Depository for the Bonds.

"*Event of Default*" means any event so designated and specified as described in this APPENDIX B under the heading "Events of Defaults 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.

"*Financing Documents*" means the Indenture, the Remarketing Agreement and the Liquidity Agreement.

"*Fitch*" means Fitch Ratings, its successors and assigns, and, if Fitch shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*Fixed Mode*" means the Adjustment Period commencing on the Fixed Rate Conversion Date for a Bond and ending on the Maturity Date thereof, as established pursuant to the Indenture, during which the Bonds which bear interest during such Adjustment Period bear interest at the Fixed Rate.

"*Fixed Rate*" means, for the Fixed Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Fixed Rate Conversion Date for such Fixed Mode.

"*Fixed Rate Conversion*" means the conversion of the interest rate to be borne by all or any portion of the Bonds to a Fixed Rate pursuant to the Indenture.

"*Fixed Rate Conversion Date*" means an Adjustment Date for any Bond on which it begins to bear interest at a Fixed Rate.

"*Flexible Mode*" means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 30 days (or such duration as short as one (1) day as may be approved by the Board by written notice to the Trustee and the Remarketing Agent) nor more than 396 days) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Flexible Rate; provided that the Rate Determination Date

and the Rate Change Date for each Rate Period within any such Adjustment Period shall not have a duration of more than 90 days without Bond Insurer Approval.

"*Flexible Rate*" means, for each Rate Period within a Flexible Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

"*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.

"*Immediate Notice*" means notice by telephone, telex, telecopier, by facsimile transmission or other similar electronic means of communication, not including e-mail transmission, proving evidence of transmission to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail, postage prepaid; provided, however, that if any person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex, telecopier, facsimile or other similar electronic address of the addressee, Immediate Notice means written notice by first class mail, postage prepaid.

"*Indenture*" means the Trust Indenture, dated as of December 1, 2005, by and between the Board and the Trustee, as from time to time amended and supplemented and relating to the Bonds.

"*Initial Bank*" means DEPFA BANK plc.

"*Initial Bond Insurance Policy*" means the insurance policy issued by the Initial Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds.

"*Initial Bond Insurer*" means CIFG Assurance North American, Inc., or any successor thereto or assignee thereof.

"*Initial Interest Payment Date*" with respect to each Sub-series of Bonds, means January 3, 2006.

"*Initial Interest Period*" with respect to each subseries of the Bonds, means the period from and including the date of original delivery of the Bonds to and including the day immediately preceding the immediately succeeding Rate Change Date.

"*Insolvency Proceeding*" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Board as debtor, other than any involuntary proceeding that has been finally dismissed without entry of an order for relief or similar order and as to which all appeal periods have expired.

"*Insurance Agreement*" means any agreement between the Board and a Bond Insurer, executed and delivered from time to time, relating to the Board's obligations to a Bond Insurer.

"*Interest Coverage Rate*" means the rate used in the Liquidity Facility to calculate the maximum amount (as reduced and restated from time to time in accordance with the terms thereof) which is available for the payment of the portion of the purchase price of Tendered Bonds corresponding to interest accrued on the Tendered Bonds.

"*Interest Deposit Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account established in the Indenture.

"*Interest Mode*" means a period of time relating to the frequency with which the interest rate on the Bonds is determined pursuant to the Indenture. An Interest Mode may be a Daily Mode, Weekly Mode, a Flexible Mode, a Term Rate Mode, an Auction Rate Mode or a Fixed Mode.

"*Interest Payment Date*" means each Initial Interest Payment Date and, thereafter, (a) for each Bond, each Adjustment Date therefor, (b) for any Bond in the Daily Mode or Weekly Mode, the first Business Day of each calendar month, (c) for any Bond in a Flexible Mode, each Rate Change Date therefor, (d) for any Bond in the Term Rate Mode, each Stated Interest Payment Date occurring in such Rate Period (beginning with the first Stated Interest Payment Date that occurs no earlier than 6 months after the commencement of such Rate Period), (e) for any Bond in a Fixed Mode, each September 1 and March 1, commencing as provided in the Indenture, (f) for any Bank Bond, such dates as are specified in the Liquidity Agreement, (g) during an ARS Rate Period, (i) when used with respect to any Auction Period other than a Special Auction Period, the Business Day immediately following such Auction Period, and (ii) when used with respect to a Special Auction Period of (x) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, of (y) 92 or more days, such day of the week designated by the Broker-Dealer of each thirteenth week after the

first day of such Special Auction Period or the next Business Day if such day of the week is not a Business Day and on the Business Day immediately following such Special Auction Period and (h) for each Bond, the Maturity Date thereof; provided that, except with respect to (i) Bonds in the Flexible Mode (without the approval of the Board described in the definition of such term) or (ii) any Interest Payment Dates with respect to remarketed Bank Bonds under (f), in no event shall more than one Interest Payment Date for the Bonds occur in any one calendar month.

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

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

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

(i) Government Obligations;

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

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

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

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

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

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

(vii) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the Regulations issued thereunder. The government securities that are the subject of such repurchase agreements, unless registered or inscribed in the name of the Board, shall be purchased through banks or trust companies authorized to do business in the State of Illinois;

(viii) Pre-refunded Municipal Obligations; and

(ix) Forward Supply Contracts.

"*Liquidity Agreement*" means any agreement then governing the Liquidity Facility, including a Substitute Liquidity Agreement, as it may from time to time be amended or supplemented, provided that the form of any such agreement shall be subject to Bond Insurer Approval, which Approval shall not be unreasonably withheld.

"*Liquidity Agreement Default*" means each "default" or "event of default," if any, under a Liquidity Facility, the consequence of notice of which is that the Bonds shall be subject to mandatory tender pursuant to the Indenture.

"*Liquidity Facility*" means the obligation of the Bank to provide funds for the purpose of purchasing Tendered Bonds, which Liquidity Facility may be in the form of a line of credit, bond purchase agreement or letter of credit, and includes any Substitute Liquidity Facility that may be delivered pursuant to the Indenture.

"*Liquidity Substitution Date*" means the day on which a Substitute Liquidity Facility becomes effective.

"*Maturity Date*" means, (i) with respect to the Series 2005D-1 Bonds, March 1, 2012, (ii) with respect to the Series 2005D-2 Bonds, March 1, 2036.

"*Maximum Interest Rate*" means, with respect to any of the Bonds at any time, the lesser of (i) the Statutory Maximum Rate, (ii) while the Bonds are in a Short Mode, the applicable Interest Coverage Rate or (iii) 15%.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*Opinion of Bond Counsel*" means a written opinion of Bond Counsel in form and substance acceptable to the Board and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

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

(i) Any Bonds cancelled 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 in this APPENDIX B under the heading "Defeasance."

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

"*Participant*," when used with respect to any Securities Depository, means any participant of such Securities Depository.

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

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

"*Person*" means and includes an association, unincorporated organization, a corporation, a partnership, 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 State Aid Revenues*" means that amount of the State Aid Revenues, not in excess of available amounts under the 2004 Authorization (as defined in the Indenture) in any year, as shall provide for the payment of the Bonds, any Swap Payments, and the provision of not less than an additional .10 times debt service on the Bonds, in such year.

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

"*Pledged State Aid Revenues Account Requirement*" means:

(i) on each Deposit Date, with respect to the Bonds bearing interest at a Short Rate or an ARS Rate, an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an interest rate equal to the greater of (x) 4.5% or (y) the actual weighted average interest rate borne by such Bonds for the 12-month period ending on the preceding February 1; provided that such amount shall be increased or decreased, as appropriate, giving effect to the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect, (B) if no Swap Agreement is in place, the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date for which the Interest Payment Date occurs in the next succeeding Bond Year from the first day of the Rate Period for such Bonds to the last day of the then-current Bond Year, and (C) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year;

(ii) on each Deposit Date, with respect to Bonds bearing interest at a Term Rate or Fixed Rate, an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and the actual Term Rate or Fixed Rate or Term Rates or Fixed Rates then borne by such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a variable rate of interest, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds pursuant to subparagraph (i)(A) above, treating the Swap Agreement as the Bonds for purposes of subclause (y), above, and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year; and

(iii) on each Deposit Date, with respect to any Bank Bonds, an amount equal to the sum of (A) one year's interest on such Bank Bonds based upon the aggregate principal amount of such Bank Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an assumed interest rate equal to the greater of (i) 8.00% or (ii) the average Bank Rate for the 12-month period ending on the preceding February 1 (regardless of whether Bank Bonds are Outstanding during such period) and (B) the

principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year.

"*Pledged State Aid Revenues Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account.

"*Pledged Taxes*" means the ad valorem taxes levied or to be levied pursuant to the covenant contained in the Indenture against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture.

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

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

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

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

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

"*Prior Bonds*" means the Board's previously issued Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004C in the aggregate principal amount of $124,320,000 (consisting of $75,410,000 Series 2004C-1 and $48,910,000 Series 2004C-2), its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004D in the aggregate principal amount of $53,030,000, and its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004E in the aggregate principal amount of $44,730,000.

"*Program Expense Fund*" means the Program Expense Fund established in 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,

all in accordance with the estimate of cost, including the Board's Capital Improvement Program, as heretofore approved and from time to time amended by the Board.

"*Project Costs*" means the cost of acquisition, construction and equipping of the Project, 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, 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 Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction of the Project, the financing of such construction and the placing of the Project in operation.

"*Project Fund*" means the Project Fund established in the Indenture.

"*Rate Change Date*" means for each Rate Period (a) during any Daily Mode, a Business Day, (b) during any Weekly Mode, Thursday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, (c) during any Flexible Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (d) during any Term Rate Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (e) during any Auction Rate Mode, in accordance with the provisions of the Indenture and (f) each Adjustment Date.

"*Rate Determination Date*" means for (a) each Rate Period during any Daily Mode, each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode; (b) each Rate Period during any Weekly Mode, Wednesday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, next preceding the Rate Change Date for such Rate Period (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day), (c) each Rate Period during any Flexible Mode, the Rate Change Date for such Rate Period specified in the notice delivered to the Trustee in accordance with the Indenture, (d) each Rate Period during a Term Rate Mode, a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of a Rate Period, as determined by the Remarketing Agent, (e) the Rate Period during a Fixed Mode, the date of the firm underwriting or purchase contract referred to in the Indenture, (f) the Rate Period following a proposed Fixed Rate Conversion Date in the event of a failed conversion, such proposed Fixed Rate Conversion Date, (g) for each Auction Period during any Auction Rate Mode, as provided in the Indenture, and (h) the Rate Period following a failed Interest Mode conversion pursuant to the Indenture, the proposed Adjustment Date.

"*Rate Period*" means, with respect to each Bond, each period commencing on a Rate Change Date for such Bond to and including the day immediately preceding the immediately

succeeding Rate Change Date for such Bond (or the Maturity Date or date of redemption thereof), during which period such Bond shall bear interest at one specific interest rate.

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

"*Record Date*" means (a) with respect to any Bond during a Short Mode, the Business Day immediately preceding each Interest Payment Date for such Bond, (b) with respect to any Bond during an Auction Rate Mode, the second Business Day preceding an Interest Payment Date for such Adjustment Period (c) with respect to Bonds in a Term Rate Mode, the fifteenth (15^{th}) day (whether or not a Business Day) of the month next preceding each Interest Payment Date, and (d) with respect to any Bond during a Fixed Mode, February 15 and August 15 (whether or not a Business Day); provided, however, that if the Fixed Rate Conversion Date shall occur on or after February 15 but prior to March 1, or on or after August 15 but prior to September 1, the Record Date shall be the Fixed Rate Conversion 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.

"*Remarketing Agent*" means the placement or remarketing agent at the time serving as such under any Remarketing Agreement and designated by the Board as the Remarketing Agent with respect to any Subseries of Bonds for purposes of the Indenture.

"*Remarketing Agreement*" means any Remarketing Agreement between the Board and a Remarketing Agent delivered under the Indenture, as the same may be amended, supplemented or assigned from time to time, or any similar agreement as may be substituted therefor.

"*School Code*" means the School Code of the State of Illinois, as amended.

"*School District*" means the school district constituted by the City of Chicago pursuant to Article 34 of the School Code, and governed by the Chicago Board of Education.

"*Short Mode*" means a Flexible Mode, Daily Mode or a Weekly Mode.

"*Short Rate*" means a Flexible Rate, Daily Rate or a Weekly Rate.

"*SLGs*" means United States Treasury Certificates of Indebtedness, Notes and Bonds — State and Local Government Series.

"*Special Auction Period*" means any period of not less than seven (7) days and to, but not including, final maturity to be determined by the Broker-Dealer which begins on an Interest Payment Date and ends on a date designated by the Broker-Dealer unless such date is not

followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

"*Special Record Date*" means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

"*S&P*" means Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*State*" means the State of Illinois.

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

"*Stated Interest Payment Dates*" means each March 1, and/or September 1.

"*Statutory Maximum Rate*" means the maximum rate of interest permitted for the Bonds from time to time pursuant to applicable law, including the Bond Authorization Act of the State, as amended.

"*Subseries*" or "*subseries*" means, in connection with the issuance of the Bonds as multiple subseries, each Subseries of the Bonds bearing a distinct numerical designation (e.g. "Series 2005D-1," or "Series 2005D-2").

"*Substitute Adjustment Date*" means any Business Day during any Adjustment Period for Bank Bonds designated by the Board in accordance with the Indenture as the first day of a new Adjustment Period.

"*Substitute Bank*" means one or more commercial banks, trust companies or financial institutions obligated under any Substitute Liquidity Agreement selected by the Board.

"*Substitute Bond Insurance Policy*" means a policy (including endorsements) containing terms which are in all material respects the same as or equivalent to those provided by the Initial Bond Insurance Policy, which insures the payment of the principal of and interest on the Bonds when due and acceptable to the Bank and the Board.

"*Substitute Bond Insurer*" means an insurance company or financial institution obligated on any Substitute Bond Insurance Policy and acceptable to the Bank and the Board, and its successors and assigns and any surviving, resulting and transferee corporation.

"*Substitute Liquidity Agreement*" means any agreement (other than the Liquidity Agreement then in place) between the Board and any Substitute Bank pursuant to which a Substitute Liquidity Facility shall be in effect, as it may from time to time be amended and supplemented.

"*Substitute Liquidity Facility*" means a Liquidity Facility provided by a Substitute Bank providing the Liquidity Facility on or prior to the Liquidity Substitution Date; provided, however, that none of the following shall be deemed a Substitute Liquidity Facility: a change in the Liquidity Agreement pursuant to which the Liquidity Facility is issued; a change in the number of days of interest or interest rate covered by the Liquidity Facility; and a renewal of the term of the existing Liquidity Facility.

"*Supplemental Indenture*" means any Supplemental Indenture between the Board and the Trustee authorized as described in this APPENDIX B under the caption "Supplemental Indentures."

"*Swap Agreements*" means any agreement authorized under the Bond Resolution between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis from that provided in the Bonds for the payment of interest.

"*Swap Payment*" means, with respect to each Swap Agreement, each periodic scheduled payment owing to the Swap Provider made with respect to the notional amount identified in such Swap Agreement. For purposes of the Indenture, "Swap Payment" excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

"*Swap Payment Account*" means the Account of that name in the Debt Service Fund established in the Indenture.

"*Swap Providers*" means any other counterparty to a Swap Agreement.

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

"*Tendered Bonds*" means Bonds tendered or deemed tendered for purchase pursuant to the Indenture.

"*Term Rate*" means for each Rate Period within a Term Rate Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

"*Term Rate Conversion Date*" means an Adjustment Date for any Bond on which it begins to bear interest at a Term Rate.

"*Term Rate Mode*" means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 12 months nor extend beyond the Maturity Date) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Term Rate.

"*Trustee*" means J.P. Morgan Trust Company, National Association, and any successor or successors appointed under the Indenture as hereinafter provided. The "principal corporate trust office" of the Trustee means 227 West Monroe Street, 26th Floor, Chicago, Illinois 60606, Attention: Corporate Trust Department, or such other address as provided by the Trustee.

"*Trust Estate*" means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Granting Clauses of the Indenture.

"*Trustee's Agent*" means (i) the Trustee or (ii) any agent designated as Trustee's Agent by the Trustee and at the time serving in that capacity. Any agent so designated by the Trustee shall execute a written agreement with the Trustee assuming all obligations of the Trustee hereunder with respect to those duties of the Trustee such agent agrees to perform on behalf of the Trustee.

"*Weekly Mode*" means an Interest Mode during which the rate of interest borne by the Bonds is determined on a weekly basis as set forth in the Indenture.

"*Weekly Rate*" means, for each Rate Period during any Weekly Mode, the rate of interest established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

"*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, according to the import thereof, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board pledges and grants in the Indenture a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners, the Bank and the Bond Insurer, to the extent provided in the Indenture:

(a) The Pledged State Aid 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, with the exception of the Bond Purchase Fund (which will be held exclusively for the payment of the purchase price of Tendered Bonds) and the Program Expense Fund; and

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

The Bonds Are General Obligations

The Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged

State Aid Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will 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 State Aid Revenues for a complete fiscal year of the Board.

Additional Bonds Payable From Pledged State Aid Revenues

Except as provided below, the Board shall not hereafter issue any bonds or other evidences of indebtedness, other than the Bonds, which are secured by a pledge of or lien on the Pledged State Aid 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 shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Pledged State Aid Revenues, the Pledged Taxes or such moneys, securities or funds.

The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the State Aid Revenues available under the 2004 Authorization (as defined in the Indenture) 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 State Aid Revenues available under the 2004 Authorization with the Bonds; provided, however, that no Additional Bonds shall 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 also reserves the right to issue bonds or other evidences of indebtedness payable from State Aid Revenues available under the 2004 Authorization (as defined in the Indenture) subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 2004 Authorization available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Account hereunder during such year.

Provisions Regarding Payment of Bonds

The principal of and premium, if any, on Bonds bearing interest at a Bank Rate, a Short Rate or an ARS Rate will be payable at the principal corporate trust office of the Trustee, upon presentation and surrender of such Bonds. The principal of and premium, if any, on Bonds bearing interest at a Term Rate or Fixed Rate will be payable at the principal corporate trust office of the Trustee or, at the option of the registered owner, at the principal corporate trust office of any Paying Agent, if any, named in any such Bond, upon presentation and surrender of such Bonds.

Interest on Bonds bearing interest at a Daily Rate, Weekly Rate, an ARS Rate, Term Rate or a Fixed Rate will be paid by check mailed on the Interest Payment Date to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date at the address of such registered owners as they appear on the Bond Register or at such other addresses as are furnished to the Trustee in writing by such registered

owners not later than the Record Date. Payment of interest on Bonds bearing interest at a Flexible Rate will be made to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date, upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date. Payment of interest on any Bond will be made to registered owner of $1,000,000 or more in aggregate principal amount of Bonds as of the close of business of the Trustee on the Record Date for a particular Interest Payment Date by wire transfer to such registered owner on such Interest Payment Date upon written notice from such registered owner containing the wire transfer address within the United States to which such registered owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date; provided that such wire transfer will only be made for Bonds bearing interest at a Flexible Rate upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date.

Provisions Regarding Transfer and Exchange of Bonds

Subject to the provisions described in the Official Statement under the heading "The Bonds—Book-Entry Only System" and in the immediately succeeding paragraph, upon surrender for registration of transfer of any Bond 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 Owner or such Owner's attorney duly authorized in writing, the Board will execute, and the Trustee will authenticate and deliver, in the name of the transferee or transferees a new Bond or Bonds of like date and tenor in Authorized Denominations of the same Maturity Date for the aggregate principal amount which the Owner is entitled to receive bearing numbers not contemporaneously Outstanding. Subject to the limitations contained in the immediately succeeding paragraph, Bonds may be exchanged at such times at such principal corporate trust office of the Trustee upon surrender thereof together with an assignment duly executed by the Owner thereof or such Owner's attorney in such form and with guarantee of signature as is 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 execution by the Board of any Bond of any Authorized Denomination will constitute full and due authorization of such Authorized Denomination, and the Trustee will thereby be authorized to authenticate and deliver such registered Bond.

Subsequent to the Fixed Rate Conversion Date for any Bond, the Trustee will not be required to transfer or exchange such Bond during the period commencing on the Record Date next preceding any Interest Payment Date of such Bond and ending on such Interest Payment Date, or to transfer or exchange such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture or during the period of 15 days next preceding the giving of notice of redemption of Bonds of the same Maturity Date and interest rate which were converted on the same date. Prior to the Fixed Rate Conversion Date applicable to any Bonds, the Trustee will not be required to exchange or register the transfer of such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture, except that the Board and the Trustee will be required to issue or register the transfer of Tendered Bonds after such date of mailing of notice of redemption.

No service charge will be imposed upon the Owners for any exchange or transfer of Bonds. The Board and the Trustee may, however, require payment by the person requesting an exchange or transfer of Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption in part.

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 (including the costs of issuance of the Bonds) 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 (including the identity of and method of payment for each payee) 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) that 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 pursuant to the provisions of the Indenture. 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 or abandonment 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 Cost. 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.

Investment of Funds

Investment of Certain Moneys

Moneys held in the Accounts and Sub-Accounts of the Debt Service Fund, the Program Expense Fund and the Project Fund (but excluding any moneys derived from payments under the Bond Insurance Policy and excluding any moneys in the Bond Purchase Fund) will be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters established in the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account; provided, however, that any moneys derived from payments under the Bond Insurance Policy and any moneys in the Bond Purchase Fund will only be invested in Government Obligations of the type described in clause (i) of the definition of such term. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the Indenture will be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment will be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment will be charged to such Fund, Account or Sub-Account. Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture will be made by the Trustee as often as may be necessary 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.

Swap Agreements

The Board may enter into one or more of the agreements authorized by Section 7 of the Bond Authorization Act of the State of Illinois. The Board may designate any such agreement as a Swap Agreement by filing with the Trustee (i) an executed counterpart of such agreement and

(ii) a written notice that such agreement has been designated as a Swap Agreement for the purposes of the Indenture. Each Swap Payment under a Swap Agreement shall be payable from the Swap Payment Account. The stated notional amount under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds. Each Swap Agreement shall satisfy the following conditions precedent: (i) each Rating Service (if such Rating Service also rates the unsecured obligations of the proposed Swap Provider or any person who guarantees the obligations of the Swap Provider under the Swap Agreement) shall have assigned the unsecured obligations of the Swap Provider or such guarantor, as of the date the Swap Agreement is entered into, a rating that is equal or higher than the rating then assigned to the Outstanding Bonds by such Rating Service (without regard to any Bond Insurance Policy), and (ii) the Board shall have notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor, if any, under the Swap Agreement) in writing, at least fifteen days prior to executing and delivering the Swap Agreement of its intention to enter into the Swap Agreement and has received from such Rating Service a written indication that the entering into the Swap Agreement by the Board will not in and of itself cause a reduction or withdrawal by such Rating Service of its unenhanced rating on the Outstanding Bonds.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged State Aid Revenues

Pursuant to the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged State Aid Revenues to the payment of the Bonds and the Swap Payments and the provision of not less than an additional .10 times debt service on the Bonds, the Series 2005E Bonds and the Prior Bonds. The Board and its officers will comply with all present and future applicable laws, including the provisions of Article 18 of the School Code as the same currently exist or may be from time to time amended, in order to assure that the Pledged State Aid Revenues may be allocated and paid to the Board for application as provided in the Indenture.

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law, procedures, rules or regulations thereunder with respect to the collection and distribution of ad valorem property taxes; provided, that no such modification or amendment may provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year. The Board will notify the Bond Insurer and the Bank of any such modification or amendment.

As described in the Official Statement under the heading "Security for the Bonds – Application of Pledged State Aid Revenues; Abatement of 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.

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

In furtherance of the general obligation, full faith and credit promise of the Board to pay the principal and Redemption Price of and interest on the Bonds, and in furtherance of the covenant of the Board to pay the Swap Payments, the Board will take all actions necessary to (i) cause the levy and extension of Pledged Taxes, including any Pledged Taxes required to be levied in excess of those levied pursuant to the Bond Resolution, for collection on a timely basis to make all such payments and (ii) to cause such Pledged Taxes when extended for collection to be deposited directly with the Trustee for application pursuant to the Indenture.

Accounts and Reports

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries will be made of its transactions relating to the Pledged State Aid 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, the Bond Insurer 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 Section 148 of the Internal Revenue Code of 1986, as amended.

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 sixty (60) days after written notice

thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action until the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or

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

A payment by the Bond Insurer pursuant to the Bond Insurance Policy will not be considered a payment by the Board for the purposes described in paragraphs (1) through (4) above.

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 Bonds or 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 or enforce any of the rights or interests of the Owners of the Bonds under the Bonds or the Indenture.

All rights of action (including without limitation, the right to file proof of claims) under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

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 , including Bank Bonds, may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or for the exercise 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.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee has the power, but unless requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, is under no obligation to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

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 State Aid Revenues and Pledged Taxes and the income therefrom (other than amounts paid under the Bond Insurance Policy, which will be applied only to pay scheduled principal of and interest on the Bonds and any amounts not constituting part of the Trustee Estate) 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 (including Bank 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 is not sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which has become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not 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.

(3) to the payment of the Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on, 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, and any and all unpaid Swap Payments, or provision satisfactory to the Trustee is made for such payments, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor and all amounts owed to the Bond Insurer are paid in full, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Whenever moneys are to be applied as provided above, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply moneys to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such Record Date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Rights of Bond Insurer to Direct Remedies

Notwithstanding anything in the Indenture to the contrary, so long as the Bond Insurance Policy is in full force and effect and no Special Liquidity Default has occurred under the Liquidity Agreement, the Bond Insurer, acting alone, will (i) have the right to direct all remedies granted hereunder upon the occurrence of an Event of Default, (ii) will be recognized as the registered owner of each Insured Bond for the purposes of exercising all such rights and privileges available to the Owners of such Insured Bonds, and the Bond Insurer will have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Owner of an Insured Bond in accordance with the Indenture.

Under no circumstance may the Trustee declare the principal of or interest on the Bonds to be due and payable prior to the Maturity Date following the occurrence of an Event of Default under the indenture.

Notwithstanding anything in the Indenture to the contrary, the Trustee on behalf of the Owners of Bonds shall have the absolute right at all times to enforce the provisions of the

Liquidity Facility and the Bond Insurance Policy without any requirement of consent from either the Bank or the Bond Insurer.

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.

Nothing in the Indenture or in the Bonds contained shall affect or impair the general obligation, full faith and credit promise of the Board to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Remedies Conferred By The Act

The Board and the Trustee each acknowledge that Section 15(e) of the Act provides that all covenants of the Board relating to the issuance of the Bonds as alternate bonds pursuant to Section 15 of the Act and the conditions and obligations imposed by said Section 15 are enforceable by any Owner of the Bonds, any taxpayer of the Board and the people of the State of Illinois acting through the Attorney General of the State or any designee, and in the event that any such action results in an order finding that the Board has not properly collected and applied the Pledged State Aid Revenues as required by the Act, the plaintiff in any such action shall be awarded reasonable attorney's fees.

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.

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein.

Waiver

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

Provisions Relating to Trustee

Resignation and Removal of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than sixty (60) days' written notice to the Board, all Owners of the Bonds, the other Fiduciaries, the Remarketing Agent, the Auction Agent, the Bank and the Bond Insurer, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will take effect immediately on the 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 and accepted such appointment within a period of sixty (60) days following the giving of notice, then the Trustee, at the expense of the Board, 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 has occurred and is continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Bonds then Outstanding (excluding Bonds held by or for the account of the Board). The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, with Bond Insurer Approval, 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. Copies of each such instrument shall be delivered by the Board to each Fiduciary, the Remarketing Agent, the Auction Agent, the Bank and the Bond Insurer.

Appointment of Successor Trustee. In case at any time the Trustee resigns, 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 and the Bond Insurer.

If no appointment of a Trustee is made by the Board within sixty (60) days following such resignation or removal as described in the foregoing paragraph, the Trustee or the Owner of

any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

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

Supplemental Indentures

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

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

(ii) to impose other limitations or restrictions upon the Board;

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

(iv) to confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;

(v) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds as authorized herein;

(vi) to cure any ambiguity, omission or defect in the Indenture;

(vii) to provide for the appointment of a successor Securities Depository;

(viii) to provide for the appointment of any successor Fiduciary;

(ix) to provide for certificated Bonds;

(x) to implement a conversion of the interest rate on all or any portion of the Bonds to a Fixed Rate, an ARS Rate or a different Short Rate, all as provided herein, including, but not limited to, modifying, amending or supplementing the form of Bond to reflect, among other things, a change in the designated title of the Bonds, the fixing of an annual rate of interest, the termination of the rights of any Owner of Bonds to tender such Bonds for purchase, and the fact that the purchase price of, or interest on, the Bonds is no longer payable out of moneys drawn under the Liquidity Facility;

(xi) to amend the Auction Procedures in effect from time to time as authorized by the Indenture;

(xii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Liquidity Agreement and a Substitute Liquidity Facility, including, but not limited to, such provisions as are necessary to permit the issuer of such a Substitute Liquidity Agreement to provide credit support relating to payment of principal of and interest on the Bonds and a separate issuer of another Substitute Liquidity Agreement to provide liquidity support relating to payment of the purchase price of Bonds delivered or deemed delivered hereunder for purchase;

(xiii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Bond Insurance Policy;

(xiv) to evidence or give effect to or facilitate the delivery and administration under the Indenture of a letter of credit, a line of credit, a bond purchase agreement, an insurance policy or any other credit or liquidity device to secure the Bonds;

(xv) to secure or maintain ratings from any Rating Service in the highest short-term or commercial paper debt rating category, and the highest long-term debt rating category (each without giving effect to numeric or other qualifiers), of such Rating Service which are available for the Bonds, whether or not a Liquidity Facility secures the Bonds, which changes will not restrict, limit or reduce the obligation of the Board to pay the principal of, premium, if any, and interest on the Bonds as provided in the Indenture or otherwise adversely affect the Owners of the Bonds under the Indenture;

(xvi) to effect a change in the optional redemption schedule for Bonds in a Fixed Mode pursuant to the Indenture, or to effect a change in redemption price in accordance with the Indenture; and

(xvii) 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 and Bond Insurer."

Consent of Bank. As long as (i) a Liquidity Facility is in effect or any Bank Bonds are outstanding, or (ii) the Bank Obligations remain unsatisfied, any Supplemental Indenture not effective as described under "Supplemental Indentures Not Requiring Consent of Owners" above will not become effective unless and until the Trustee shall have received Bank Approval. In this regard, the Trustee, at the Board's direction, will cause notice of the proposed execution of any such Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed to the Bank at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Bank will be deemed to have denied consent to the execution and delivery of such Supplemental Indenture if the Trustee does not receive a letter of approval thereto signed by or on behalf of the Bank or on or before the fifteen Business

Day after the mailing of said notice. In addition, the Board will provide the Bank with notice of any Supplemental Indenture effective in accordance with the Indenture promptly upon its execution and delivery.

Consent of Bond Insurer. As long as (i) a Bond Insurance Policy is in effect, or (ii) the Bond Insurer Obligations remain unsatisfied, any Supplemental Indenture not effective as described under "Supplemental Indentures Not Requiring Consent of Owners" above will not become effective unless and until the Trustee has received Bond Insurer Approval. In this regard, the Trustee, at the Board's direction, will cause notice of the proposed execution of any such Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed to the Bond Insurer at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Bond Insurer will be deemed to have denied consent to the execution and delivery of such Supplemental Indenture if the Trustee does not receive a letter of approval thereto signed by or on behalf of the Bank on or before the fifteenth Business Day after the mailing of said notice. In addition, the Board will provide the Bond Issuer with notice of any Supplemental Indenture effective in accordance with the Indenture promptly upon its execution and delivery.

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 and the Bond Insurer will each have the right, from time to time, to (i) consent to and approve the execution by the Board and the Trustee of such other indenture or indentures supplemental to the Indenture 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 indenture thereto; provided, however, that nothing in this paragraph or as described under "Supplemental Indentures Not Requiring Consent of Owners" above permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, (b) 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, (c) except for the pledge of the Pledged State Aid 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, (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, (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 and Bond Insurer. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the (A) Owners of the required aggregate principal amount of Outstanding Bonds and (B) the Bond Insurer, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereto 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 Trustee will deliver to the Board proof of the mailing of such notice. A record, consisting of the information required or permitted by the Indenture to be delivered by or to the Trustee, will be proof of the matters therein stated.

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 and the Bond Insurer, 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. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

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, and satisfies in

full the Bond Insurer Obligations and the Bank Obligations, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners, the Bond Insurer and the Bank will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, will 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 will execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent will 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 or the satisfaction of Bond Insurer Obligations or Bank Obligations. If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion will 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 and satisfies in full the Bond Insurer Obligations and the Bank Obligations specifically related thereto, such Bonds, Bond Insurer Obligations and Bank Obligations will 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, the Bond Insurer and the Bank 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 publish or 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, without further reinvestment, 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 (in the case of Bonds bearing interest at a Short Rate, (i) such opinion as to sufficiency may be based on amounts sufficient to pay interest on the Bonds for such Rate Period as then may be in effect for which the interest rate or rates are then known and thereafter at the then applicable Maximum Interest Rate and (ii) such specified redemption date will be the earlier of the first possible date upon which such Bonds may be tendered or redeemed under the Indenture), and (d) if any of said Bonds are not to be redeemed within the next succeeding sixty (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 and moneys deposited with the Trustee pursuant to this Section shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so

held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on said Bonds, at maturity or upon redemption, as the case may be.

THE DEFEASANCE OBLIGATIONS (OR ANY PORTION THEREOF) HELD FOR THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AS DESCRIBED IN THE PRECEDING PARAGRAPH MAY NOT BE SOLD, REDEEMED, INVESTED, REINVESTED OR REMOVED FROM THE LIEN OF THE INDENTURE IN ANY MANNER OR OTHER DEFEASANCE OBLIGATIONS SUBSTITUTED THEREFOR (ANY SUCH DIRECTION TO SELL, REDEEM, INVEST, REINVEST, REMOVE OR SUBSTITUTE TO BE REFERRED TO AS A "SUBSEQUENT ACTION") UNLESS PRIOR TO THE TAKING OF SUCH SUBSEQUENT ACTION, THE TRUSTEE HAS RECEIVED THE FOLLOWING: (I) EITHER (A) A CERTIFIED COPY OF THE PROCEEDINGS OF THE BOARD AUTHORIZING THE SUBSEQUENT ACTION, OR (B) AN OPINION OF COUNSEL FOR THE BOARD TO THE EFFECT THAT SUCH SUBSEQUENT ACTION HAS BEEN DULY AUTHORIZED BY ALL NECESSARY ACTION ON THE PART OF THE BOARD; (II) AN OPINION FROM A NATIONALLY RECOGNIZED FIRM OF INDEPENDENT PUBLIC ACCOUNTANTS TO THE EFFECT THAT THE DEFEASANCE OBLIGATIONS AND CASH AVAILABLE OR TO BE AVAILABLE FOR PAYMENT OF THE BONDS AFTER THE TAKING OF THE SUBSEQUENT ACTION WILL REMAIN SUFFICIENT TO PAY, WITHOUT ANY FURTHER REINVESTMENT THEREOF, THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AT OR PRIOR TO THEIR MATURITY IN THE MANNER PROVIDED IN THE PRECEDING PARAGRAPH; (III) AN OPINION OF BOND COUNSEL TO THE EFFECT THAT THE SUBSEQUENT ACTION WILL NOT ADVERSELY AFFECT ANY EXEMPTION FROM FEDERAL INCOME TAX OF THE INTEREST PAID ON THE BONDS TO WHICH SUCH BONDS ARE OTHERWISE ENTITLED; AND (IV) SUCH OTHER DOCUMENTS AND SHOWINGS AS THE TRUSTEE MAY REASONABLY REQUIRE.

APPENDIX B-2

Summary of Certain Provisions of the Indenture for the Series 2005E Bonds

The following is a summary of certain provisions of the Indenture for the Series 2005E Bonds not summarized elsewhere in this Official Statement. Reference is made to such 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 by the Board 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 State Aid Revenues with the Bonds and the Prior Bonds, as described in this APPENDIX B under the heading "Additional Bonds Payable from Pledged State Aid Revenues."

"*Adjustment Date*" means (a) the Date of Issuance, (b) any date which is the first day of an Adjustment Period, (c) any Substitute Adjustment Date, and (d) any proposed Term Rate Conversion Date or Fixed Rate Conversion Date.

"*Adjustment Period*" means, with respect to each Bond, each period commencing on an Adjustment Date for such Bond to and including the day immediately preceding the immediately succeeding Adjustment Date for such Bond (or the Maturity Date thereof), during which period such Bond shall operate in one type of Interest Mode.

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

"*Auction Rate Documents*" means any Auction Agent Agreement, Broker-Dealer Agreement or other agreement required to be executed and delivered at any time in order to effectuate the Auction Procedures in connection with any Auction Rate Mode designated by the Board hereunder.

"*Auction Rate Mode*" means an Interest Mode during which the rate of interest borne by the Bonds is determined in accordance with the Indenture.

"*Authorized Denominations*" means, (i) with respect to a particular Bond in a Short Mode, $100,000 and any multiple of $5,000 in excess thereof, (ii) with respect to a particular Bond in a Term Rate Mode, $5,000 and any integral multiple thereof, (iii) with respect to a particular Bond in an Auction Rate Mode, $25,000 and any integral multiple thereof, and (iv) after the Term Rate Conversion Date or Fixed Rate Conversion Date with respect to a particular Bond, $5,000 and any integral multiple thereof.

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

"*Bank*" means the Initial Bank or any provider then obligated under a Liquidity Facility delivered in accordance with the terms of the Indenture.

"*Bank Approval*" means the written approval of the Bank, if such approval is required pursuant to the then-applicable Liquidity Agreement.

"*Bank Bonds*" means Tendered Bonds purchased with moneys drawn under the Liquidity Facility pursuant to the Indenture, which are owned by the Bank or its permitted assigns in accordance with the Liquidity Agreement or the Custody Agreement, if any, until such Bonds are remarketed by the Remarketing Agent pursuant to the Remarketing Agreement and the Bank is in receipt of the principal amount thereof, plus accrued interest thereon at the Bank Rate or such Bonds lose their characterization as Bank Bonds pursuant to the Liquidity Agreement.

"*Bank Obligations*" means the Board's obligations under the Liquidity Agreement (including, without limitation, the Board's obligations to pay the principal of and interest on any Bank Bonds at the Bank Rate).

"*Bank Rate*" means with respect to any Bank Bond, such interest rate or sequence of rates (which may be stated as a formula and may be determined by reference to a specified index or indices) as is specified in the Liquidity Agreement then in effect pursuant to which such Bank Bond was purchased. Notwithstanding the foregoing, at no time shall the Board pay interest on Bank Bonds at a rate higher than the Maximum Interest Rate.

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

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

"*Bondholder*" means the Owner of any Bond.

"*Bond Insurance Policy*" means the Initial Bond Insurance Policy to be delivered by the Initial Bond Insurer to the Trustee on the Date of Issuance, unless and until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter "Bond Insurance Policy" means any Substitute Bond Insurance Policy delivered by a Substitute Bond Insurer and accepted by the Trustee in substitution therefor pursuant to the Indenture.

"*Bond Insurance Substitution Date*" means the day on which a Substitute Bond Insurance Policy becomes effective.

"*Bond Insurer*" means the Initial Bond Insurer, as issuer of the Initial Bond Insurance Policy, until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter

"Bond Insurer" means a Substitute Bond Insurer as the obligor on any Substitute Bond Insurance Policy accepted by the Trustee in substitution therefor pursuant to the Indenture.

"*Bond Insurer Approval*" means the written approval of the Bond Insurer, if such approval is required pursuant to the Indenture or any applicable Insurance Agreement.

"*Bond Insurer Obligations*" means the Board's obligations to the Bond Insurer pursuant to the Indenture or in connection with the Bond Insurance Policy or any applicable Insurance Agreement.

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

"*Bond Purchase Fund*" means the trust fund so designated which is created and established pursuant to the Indenture.

"*Bond Resolution*" means, Resolution No. 05-116-RS4, adopted by the Board on the 16th day of November, 2005, authorizing the issuance of the Bonds.

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

"*Bonds*" means, collectively, the $130,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005E of the Board, being initially issued under the Indenture as follows: the $65,000,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005E-1 and the $65,000,000, Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005E-2 being issued under this Indenture, and any Bonds issued hereunder in substitution or replacement therefor, and includes any Bank Bonds from time to time Outstanding.

"*Broker-Dealer*" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Indenture, that is a member of, or a direct participant in, the Securities Depository, and that is a party to a Broker-Dealer Agreement with the Auction Agent. The Board shall retain the right to appoint additional Broker-Dealers without obtaining the consent of any other Broker-Dealer.

"*Business Day*" means any day other than a Saturday, Sunday or (i) a day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer or the Bond Insurer's custodian at which claims under the Bond Insurance Policy are to be paid (initially, New York, New York) is located, (c) in the city in which the principal United States office of the Bank at which requests for purchase of Tendered Bonds under the Liquidity Agreement are to be honored is located, (d) in the city in which the corporate trust office of the Trustee or the Trustee's Agent at which the Bonds may be tendered for purchase by the holders thereof is located, (e) in the city in which the principal office of the Auction Agent is located and (f) in the city in which the principal office of the Remarketing Agent is located, are required or authorized to remain closed or (ii) a day on which The New York Stock Exchange is closed.

"*Code*" or "*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 internal 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.

"*Custody Agreement*" means a custody agreement or a pledge and security agreement (which may also be the Liquidity Agreement), if any, entered into by the Trustee, as custodian, and the Bank, and any and all amendments and supplements thereto, relating to Bank Bonds.

"*Daily Mode*" means the Mode during which the Bonds bear interest at the Daily Rate.

"*Daily Rate*" means the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

"*Date of Issuance*" means the date of original issuance and delivery of the Bonds hereunder.

"*Defaulted Interest*" means interest on any Bond which is payable but not duly paid on the date due.

"*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.

"*Delivery Office*" means for the Remarketing Agent, such address as shall be specified in any Remarketing Agreement delivered pursuant to the Indenture.

"*Deposit Date*" means February 15 of each year beginning February 15, 2007 or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes described under the heading "SECURITY FOR THE BONDS—Application of Pledged State Aid Revenues; Abatement of Pledged Taxes."

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

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

"*DTC*" means The Depository Trust Company, New York, New York, as the initial Securities Depository for the Bonds.

"*Event of Default*" means any event so designated and specified as described in this APPENDIX B under the heading "Events of Defaults 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.

"*Financing Documents*" means the Indenture, the Remarketing Agreement and the Liquidity Agreement.

"*Fitch*" means Fitch Ratings, its successors and assigns, and, if Fitch shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*Fixed Mode*" means the Adjustment Period commencing on the Fixed Rate Conversion Date for a Bond and ending on the Maturity Date thereof, as established pursuant to the Indenture, during which the Bonds which bear interest during such Adjustment Period bear interest at the Fixed Rate.

"*Fixed Rate*" means, for the Fixed Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Fixed Rate Conversion Date for such Fixed Mode.

"*Fixed Rate Conversion*" means the conversion of the interest rate to be borne by all or any portion of the Bonds to a Fixed Rate pursuant to the Indenture.

"*Fixed Rate Conversion Date*" means an Adjustment Date for any Bond on which it begins to bear interest at a Fixed Rate.

"*Flexible Mode*" means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 30 days (or such duration as short as one (1) day as may be approved by the Board by written notice to the Trustee and the Remarketing Agent) nor more than 396 days) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Flexible Rate; provided that the Rate Determination Date

and the Rate Change Date for each Rate Period within any such Adjustment Period shall not have a duration of more than 90 days without Bond Insurer Approval.

"*Flexible Rate*" means, for each Rate Period within a Flexible Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

"*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.

"*Immediate Notice*" means notice by telephone, telex, telecopier, by facsimile transmission or other similar electronic means of communication, not including e-mail transmission, proving evidence of transmission to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail, postage prepaid; provided, however, that if any person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex, telecopier, facsimile or other similar electronic address of the addressee, Immediate Notice means written notice by first class mail, postage prepaid.

"*Indenture*" means the Trust Indenture, dated as of December 1, 2005, by and between the Board and the Trustee, as from time to time amended and supplemented and relating to the Bonds.

"*Initial Bank*" means Dexia Credit Local, acting through its New York Branch.

"*Initial Bond Insurance Policy*" means the insurance policy issued by the Initial Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds.

"*Initial Bond Insurer*" means CIFG Assurance North American, Inc., or any successor thereto or assignee thereof.

"*Initial Interest Payment Date*" with respect to each Sub-series of Bonds, means January 3, 2006.

"*Initial Interest Period*" with respect to each subseries of the Bonds, means the period from and including the date of original delivery of the Bonds to and including the day immediately preceding the immediately succeeding Rate Change Date.

"*Insolvency Proceeding*" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Board as debtor, other than any involuntary proceeding that has been finally dismissed without entry of an order for relief or similar order and as to which all appeal periods have expired.

"*Insurance Agreement*" means any agreement between the Board and a Bond Insurer, executed and delivered from time to time, relating to the Board's obligations to a Bond Insurer.

"*Interest Coverage Rate*" means the rate used in the Liquidity Facility to calculate the maximum amount (as reduced and restated from time to time in accordance with the terms thereof) which is available for the payment of the portion of the purchase price of Tendered Bonds corresponding to interest accrued on the Tendered Bonds.

"*Interest Deposit Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account established in the Indenture.

"*Interest Mode*" means a period of time relating to the frequency with which the interest rate on the Bonds is determined pursuant to the Indenture. An Interest Mode may be a Daily Mode, Weekly Mode, a Flexible Mode, a Term Rate Mode, an Auction Rate Mode or a Fixed Mode.

"*Interest Payment Date*" means each Initial Interest Payment Date and, thereafter, (a) for each Bond, each Adjustment Date therefor, (b) for any Bond in the Daily Mode or Weekly Mode, the first Business Day of each calendar month, (c) for any Bond in a Flexible Mode, each Rate Change Date therefor, (d) for any Bond in the Term Rate Mode, each Stated Interest Payment Date occurring in such Rate Period (beginning with the first Stated Interest Payment Date that occurs no earlier than 6 months after the commencement of such Rate Period), (e) for any Bond in a Fixed Mode, each September 1 and March 1, commencing as provided in the Indenture, (f) for any Bank Bond, such dates as are specified in the Liquidity Agreement, (g) during an ARS Rate Period, (i) when used with respect to any Auction Period other than a Special Auction Period, the Business Day immediately following such Auction Period, and (ii) when used with respect to a Special Auction Period of (x) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, of (y) 92 or more days, such day of the week designated by the Broker-Dealer of each thirteenth week after the

first day of such Special Auction Period or the next Business Day if such day of the week is not a Business Day and on the Business Day immediately following such Special Auction Period and (h) for each Bond, the Maturity Date thereof; provided that, except with respect to (i) Bonds in the Flexible Mode (without the approval of the Board described in the definition of such term) or (ii) any Interest Payment Dates with respect to remarketed Bank Bonds under (f), in no event shall more than one Interest Payment Date for the Bonds occur in any one calendar month.

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

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

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

(i) Government Obligations;

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

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

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

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

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

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

(vii) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the Regulations issued thereunder. The government securities that are the subject of such repurchase agreements, unless registered or inscribed in the name of the Board, shall be purchased through banks or trust companies authorized to do business in the State of Illinois;

(viii) Pre-refunded Municipal Obligations; and

(ix) Forward Supply Contracts.

"*Liquidity Agreement*" means any agreement then governing the Liquidity Facility, including a Substitute Liquidity Agreement, as it may from time to time be amended or supplemented, provided that the form of any such agreement shall be subject to Bond Insurer Approval, which Approval shall not be unreasonably withheld.

"*Liquidity Agreement Default*" means each "default" or "event of default," if any, under a Liquidity Facility, the consequence of notice of which is that the Bonds shall be subject to mandatory tender pursuant to the Indenture.

"*Liquidity Facility*" means the obligation of the Bank to provide funds for the purpose of purchasing Tendered Bonds, which Liquidity Facility may be in the form of a line of credit, bond purchase agreement or letter of credit, and includes any Substitute Liquidity Facility that may be delivered pursuant to the Indenture.

"*Liquidity Substitution Date*" means the day on which a Substitute Liquidity Facility becomes effective.

"*Maturity Date*" means, (i) with respect to the Series 2005E-1 Bonds, March 1, 2026, (ii) with respect to the Series 2005E-2 Bonds, March 1, 2026.

"*Maximum Interest Rate*" means, with respect to any of the Bonds at any time, the lesser of (i) the Statutory Maximum Rate, (ii) while the Bonds are in a Short Mode, the applicable Interest Coverage Rate or (iii) 15%.

"*Moody's*" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*Opinion of Bond Counsel*" means a written opinion of Bond Counsel in form and substance acceptable to the Board and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

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

(i) Any Bonds cancelled 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 in this APPENDIX B under the heading "Defeasance."

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

"*Participant*," when used with respect to any Securities Depository, means any participant of such Securities Depository.

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

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

"*Person*" means and includes an association, unincorporated organization, a corporation, a partnership, 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 State Aid Revenues*" means that amount of the State Aid Revenues, not in excess of available amounts under the 2004 Authorization (as defined in the Indenture) in any year, as shall provide for the payment of the Bonds, any Swap Payments, and the provision of not less than an additional .10 times debt service on the Bonds, in such year.

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

"*Pledged State Aid Revenues Account Requirement*" means:

(i) on each Deposit Date, with respect to the Bonds bearing interest at a Short Rate or an ARS Rate, an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an interest rate equal to the greater of (x) 4.5% or (y) the actual weighted average interest rate borne by such Bonds for the 12-month period ending on the preceding February 1; provided that such amount shall be increased or decreased, as appropriate, giving effect to the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect, (B) if no Swap Agreement is in place, the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date for which the Interest Payment Date occurs in the next succeeding Bond Year from the first day of the Rate Period for such Bonds to the last day of the then-current Bond Year, and (C) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year;

(ii) on each Deposit Date, with respect to Bonds bearing interest at a Term Rate or Fixed Rate, an amount equal to the sum of (A) one year's interest on such Bonds based upon the aggregate principal amount of Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and the actual Term Rate or Fixed Rate or Term Rates or Fixed Rates then borne by such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a variable rate of interest, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds pursuant to subparagraph (i)(A) above, treating the Swap Agreement as the Bonds for purposes of subclause (y), above, and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year; and

(iii) on each Deposit Date, with respect to any Bank Bonds, an amount equal to the sum of (A) one year's interest on such Bank Bonds based upon the aggregate principal amount of such Bank Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an assumed interest rate equal to the greater of (i) 8.00% or (ii) the average Bank Rate for the 12-month period ending on the preceding February 1 (regardless of whether Bank Bonds are Outstanding during such period) and (B) the

principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year.

"*Pledged State Aid Revenues Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account.

"*Pledged Taxes*" means the ad valorem taxes levied or to be levied pursuant to the covenant contained in the Indenture against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture.

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

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

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

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

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

"*Prior Bonds*" means the Board's previously issued Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004C in the aggregate principal amount of $124,320,000 (consisting of $75,410,000 Series 2004C-1 and $48,910,000 Series 2004C-2), its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004D in the aggregate principal amount of $53,030,000, and its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004E in the aggregate principal amount of $44,730,000.

"*Program Expense Fund*" means the Program Expense Fund established in 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,

all in accordance with the estimate of cost, including the Board's Capital Improvement Program, as heretofore approved and from time to time amended by the Board.

"*Project Costs*" means the cost of acquisition, construction and equipping of the Project, 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, 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 Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction of the Project, the financing of such construction and the placing of the Project in operation.

"*Project Fund*" means the Project Fund established in the Indenture.

"*Rate Change Date*" means for each Rate Period (a) during any Daily Mode, a Business Day, (b) during any Weekly Mode, Thursday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, (c) during any Flexible Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (d) during any Term Rate Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (e) during any Auction Rate Mode, in accordance with the provisions of the Indenture and (f) each Adjustment Date.

"*Rate Determination Date*" means for (a) each Rate Period during any Daily Mode, each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode; (b) each Rate Period during any Weekly Mode, Wednesday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, next preceding the Rate Change Date for such Rate Period (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day), (c) each Rate Period during any Flexible Mode, the Rate Change Date for such Rate Period specified in the notice delivered to the Trustee in accordance with the Indenture, (d) each Rate Period during a Term Rate Mode, a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of a Rate Period, as determined by the Remarketing Agent, (e) the Rate Period during a Fixed Mode, the date of the firm underwriting or purchase contract referred to in the Indenture, (f) the Rate Period following a proposed Fixed Rate Conversion Date in the event of a failed conversion, such proposed Fixed Rate Conversion Date, (g) for each Auction Period during any Auction Rate Mode, as provided in the Indenture, and (h) the Rate Period following a failed Interest Mode conversion pursuant to the Indenture, the proposed Adjustment Date.

"*Rate Period*" means, with respect to each Bond, each period commencing on a Rate Change Date for such Bond to and including the day immediately preceding the immediately

succeeding Rate Change Date for such Bond (or the Maturity Date or date of redemption thereof), during which period such Bond shall bear interest at one specific interest rate.

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

"*Record Date*" means (a) with respect to any Bond during a Short Mode, the Business Day immediately preceding each Interest Payment Date for such Bond, (b) with respect to any Bond during an Auction Rate Mode, the second Business Day preceding an Interest Payment Date for such Adjustment Period (c) with respect to Bonds in a Term Rate Mode, the fifteenth (15^{th}) day (whether or not a Business Day) of the month next preceding each Interest Payment Date, and (d) with respect to any Bond during a Fixed Mode, February 15 and August 15 (whether or not a Business Day); provided, however, that if the Fixed Rate Conversion Date shall occur on or after February 15 but prior to March 1, or on or after August 15 but prior to September 1, the Record Date shall be the Fixed Rate Conversion 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.

"*Remarketing Agent*" means the placement or remarketing agent at the time serving as such under any Remarketing Agreement and designated by the Board as the Remarketing Agent with respect to any Subseries of Bonds for purposes of the Indenture.

"*Remarketing Agreement*" means any Remarketing Agreement between the Board and a Remarketing Agent delivered under the Indenture, as the same may be amended, supplemented or assigned from time to time, or any similar agreement as may be substituted therefor.

"*School Code*" means the School Code of the State of Illinois, as amended.

"*School District*" means the school district constituted by the City of Chicago pursuant to Article 34 of the School Code, and governed by the Chicago Board of Education.

"*Short Mode*" means a Flexible Mode, Daily Mode or a Weekly Mode.

"*Short Rate*" means a Flexible Rate, Daily Rate or a Weekly Rate.

"*SLGs*" means United States Treasury Certificates of Indebtedness, Notes and Bonds — State and Local Government Series.

"*Special Auction Period*" means any period of not less than seven (7) days and to, but not including, final maturity to be determined by the Broker-Dealer which begins on an Interest Payment Date and ends on a date designated by the Broker-Dealer unless such date is not

followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

"*Special Record Date*" means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

"*S&P*" means Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

"*State*" means the State of Illinois.

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

"*Stated Interest Payment Dates*" means each March 1, and/or September 1.

"*Statutory Maximum Rate*" means the maximum rate of interest permitted for the Bonds from time to time pursuant to applicable law, including the Bond Authorization Act of the State, as amended.

"*Subseries*" or "*subseries*" means, in connection with the issuance of the Bonds as multiple subseries, each Subseries of the Bonds bearing a distinct numerical designation (e.g. "Series 2005E-1," or "Series 2005E-2").

"*Substitute Adjustment Date*" means any Business Day during any Adjustment Period for Bank Bonds designated by the Board in accordance with the Indenture as the first day of a new Adjustment Period.

"*Substitute Bank*" means one or more commercial banks, trust companies or financial institutions obligated under any Substitute Liquidity Agreement selected by the Board.

"*Substitute Bond Insurance Policy*" means a policy (including endorsements) containing terms which are in all material respects the same as or equivalent to those provided by the Initial Bond Insurance Policy, which insures the payment of the principal of and interest on the Bonds when due and acceptable to the Bank and the Board.

"*Substitute Bond Insurer*" means an insurance company or financial institution obligated on any Substitute Bond Insurance Policy and acceptable to the Bank and the Board, and its successors and assigns and any surviving, resulting and transferee corporation.

"*Substitute Liquidity Agreement*" means any agreement (other than the Liquidity Agreement then in place) between the Board and any Substitute Bank pursuant to which a Substitute Liquidity Facility shall be in effect, as it may from time to time be amended and supplemented.

"*Substitute Liquidity Facility*" means a Liquidity Facility provided by a Substitute Bank providing the Liquidity Facility on or prior to the Liquidity Substitution Date; provided, however, that none of the following shall be deemed a Substitute Liquidity Facility: a change in the Liquidity Agreement pursuant to which the Liquidity Facility is issued; a change in the number of days of interest or interest rate covered by the Liquidity Facility; and a renewal of the term of the existing Liquidity Facility.

"*Supplemental Indenture*" means any Supplemental Indenture between the Board and the Trustee authorized as described in this APPENDIX B under the caption "Supplemental Indentures."

"*Swap Agreements*" means any agreement authorized under the Bond Resolution between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis from that provided in the Bonds for the payment of interest.

"*Swap Payment*" means, with respect to each Swap Agreement, each periodic scheduled payment owing to the Swap Provider made with respect to the notional amount identified in such Swap Agreement. For purposes of the Indenture, "Swap Payment" excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

"*Swap Payment Account*" means the Account of that name in the Debt Service Fund established in the Indenture.

"*Swap Providers*" means any other counterparty to a Swap Agreement.

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

"*Tendered Bonds*" means Bonds tendered or deemed tendered for purchase pursuant to the Indenture.

"*Term Rate*" means for each Rate Period within a Term Rate Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

"*Term Rate Conversion Date*" means an Adjustment Date for any Bond on which it begins to bear interest at a Term Rate.

"*Term Rate Mode*" means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 12 months nor extend beyond the Maturity Date) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Term Rate.

"*Trustee*" means J.P. Morgan Trust Company, National Association, and any successor or successors appointed under the Indenture as hereinafter provided. The "principal corporate trust office" of the Trustee means 227 West Monroe Street, 26th Floor, Chicago, Illinois 60606, Attention: Corporate Trust Department, or such other address as provided by the Trustee.

"*Trust Estate*" means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Granting Clauses of the Indenture.

"*Trustee's Agent*" means (i) the Trustee or (ii) any agent designated as Trustee's Agent by the Trustee and at the time serving in that capacity. Any agent so designated by the Trustee shall execute a written agreement with the Trustee assuming all obligations of the Trustee hereunder with respect to those duties of the Trustee such agent agrees to perform on behalf of the Trustee.

"*Weekly Mode*" means an Interest Mode during which the rate of interest borne by the Bonds is determined on a weekly basis as set forth in the Indenture.

"*Weekly Rate*" means, for each Rate Period during any Weekly Mode, the rate of interest established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

"*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, according to the import thereof, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board pledges and grants in the Indenture a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners, the Bank and the Bond Insurer, to the extent provided in the Indenture:

(a) The Pledged State Aid 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, with the exception of the Bond Purchase Fund (which will be held exclusively for the payment of the purchase price of Tendered Bonds) and the Program Expense Fund; and

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

The Bonds Are General Obligations

The Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged

State Aid Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will 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 State Aid Revenues for a complete fiscal year of the Board.

Additional Bonds Payable From Pledged State Aid Revenues

Except as provided below, the Board shall not hereafter issue any bonds or other evidences of indebtedness, other than the Bonds, which are secured by a pledge of or lien on the Pledged State Aid 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 shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Pledged State Aid Revenues, the Pledged Taxes or such moneys, securities or funds.

The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the State Aid Revenues available under the 2004 Authorization (as defined in the Indenture) 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 State Aid Revenues available under the 2004 Authorization with the Bonds; provided, however, that no Additional Bonds shall 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 also reserves the right to issue bonds or other evidences of indebtedness payable from State Aid Revenues available under the 2004 Authorization (as defined in the Indenture) subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 2004 Authorization available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Account hereunder during such year.

Provisions Regarding Payment of Bonds

The principal of and premium, if any, on Bonds bearing interest at a Bank Rate, a Short Rate or an ARS Rate will be payable at the principal corporate trust office of the Trustee, upon presentation and surrender of such Bonds. The principal of and premium, if any, on Bonds bearing interest at a Term Rate or Fixed Rate will be payable at the principal corporate trust office of the Trustee or, at the option of the registered owner, at the principal corporate trust office of any Paying Agent, if any, named in any such Bond, upon presentation and surrender of such Bonds.

Interest on Bonds bearing interest at a Daily Rate, Weekly Rate, an ARS Rate, Term Rate or a Fixed Rate will be paid by check mailed on the Interest Payment Date to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date at the address of such registered owners as they appear on the Bond Register or at such other addresses as are furnished to the Trustee in writing by such registered

owners not later than the Record Date. Payment of interest on Bonds bearing interest at a Flexible Rate will be made to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date, upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date. Payment of interest on any Bond will be made to registered owner of $1,000,000 or more in aggregate principal amount of Bonds as of the close of business of the Trustee on the Record Date for a particular Interest Payment Date by wire transfer to such registered owner on such Interest Payment Date upon written notice from such registered owner containing the wire transfer address within the United States to which such registered owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date; provided that such wire transfer will only be made for Bonds bearing interest at a Flexible Rate upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date.

Provisions Regarding Transfer and Exchange of Bonds

Subject to the provisions described in the Official Statement under the heading "The Bonds—Book-Entry Only System" and in the immediately succeeding paragraph, upon surrender for registration of transfer of any Bond 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 Owner or such Owner's attorney duly authorized in writing, the Board will execute, and the Trustee will authenticate and deliver, in the name of the transferee or transferees a new Bond or Bonds of like date and tenor in Authorized Denominations of the same Maturity Date for the aggregate principal amount which the Owner is entitled to receive bearing numbers not contemporaneously Outstanding. Subject to the limitations contained in the immediately succeeding paragraph, Bonds may be exchanged at such times at such principal corporate trust office of the Trustee upon surrender thereof together with an assignment duly executed by the Owner thereof or such Owner's attorney in such form and with guarantee of signature as is 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 execution by the Board of any Bond of any Authorized Denomination will constitute full and due authorization of such Authorized Denomination, and the Trustee will thereby be authorized to authenticate and deliver such registered Bond.

Subsequent to the Fixed Rate Conversion Date for any Bond, the Trustee will not be required to transfer or exchange such Bond during the period commencing on the Record Date next preceding any Interest Payment Date of such Bond and ending on such Interest Payment Date, or to transfer or exchange such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture or during the period of 15 days next preceding the giving of notice of redemption of Bonds of the same Maturity Date and interest rate which were converted on the same date. Prior to the Fixed Rate Conversion Date applicable to any Bonds, the Trustee will not be required to exchange or register the transfer of such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture, except that the Board and the Trustee will be required to issue or register the transfer of Tendered Bonds after such date of mailing of notice of redemption.

No service charge will be imposed upon the Owners for any exchange or transfer of Bonds. The Board and the Trustee may, however, require payment by the person requesting an exchange or transfer of Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption in part.

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 (including the costs of issuance of the Bonds) 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 (including the identity of and method of payment for each payee) 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) that 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 pursuant to the provisions of the Indenture. 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 or abandonment 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 Cost. 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.

Investment of Funds

Investment of Certain Moneys

Moneys held in the Accounts and Sub-Accounts of the Debt Service Fund, the Program Expense Fund and the Project Fund (but excluding any moneys derived from payments under the Bond Insurance Policy and excluding any moneys in the Bond Purchase Fund) will be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters established in the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account; provided, however, that any moneys derived from payments under the Bond Insurance Policy and any moneys in the Bond Purchase Fund will only be invested in Government Obligations of the type described in clause (i) of the definition of such term. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the Indenture will be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment will be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment will be charged to such Fund, Account or Sub-Account. Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture will be made by the Trustee as often as may be necessary 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.

Swap Agreements

The Board may enter into one or more of the agreements authorized by Section 7 of the Bond Authorization Act of the State of Illinois. The Board may designate any such agreement as a Swap Agreement by filing with the Trustee (i) an executed counterpart of such agreement and

(ii) a written notice that such agreement has been designated as a Swap Agreement for the purposes of the Indenture. Each Swap Payment under a Swap Agreement shall be payable from the Swap Payment Account. The stated notional amount under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds. Each Swap Agreement shall satisfy the following conditions precedent: (i) each Rating Service (if such Rating Service also rates the unsecured obligations of the proposed Swap Provider or any person who guarantees the obligations of the Swap Provider under the Swap Agreement) shall have assigned the unsecured obligations of the Swap Provider or such guarantor, as of the date the Swap Agreement is entered into, a rating that is equal or higher than the rating then assigned to the Outstanding Bonds by such Rating Service (without regard to any Bond Insurance Policy), and (ii) the Board shall have notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor, if any, under the Swap Agreement) in writing, at least fifteen days prior to executing and delivering the Swap Agreement of its intention to enter into the Swap Agreement and has received from such Rating Service a written indication that the entering into the Swap Agreement by the Board will not in and of itself cause a reduction or withdrawal by such Rating Service of its unenhanced rating on the Outstanding Bonds.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged State Aid Revenues

Pursuant to the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged State Aid Revenues to the payment of the Bonds and the Swap Payments and the provision of not less than an additional .10 times debt service on the Bonds, the Series 2005D Bonds and the Prior Bonds. The Board and its officers will comply with all present and future applicable laws, including the provisions of Article 18 of the School Code as the same currently exist or may be from time to time amended, in order to assure that the Pledged State Aid Revenues may be allocated and paid to the Board for application as provided in the Indenture.

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law, procedures, rules or regulations thereunder with respect to the collection and distribution of ad valorem property taxes; provided, that no such modification or amendment may provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year. The Board will notify the Bond Insurer and the Bank of any such modification or amendment.

As described in the Official Statement under the heading "Security for the Bonds – Application of Pledged State Aid Revenues; Abatement of 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.

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

In furtherance of the general obligation, full faith and credit promise of the Board to pay the principal and Redemption Price of and interest on the Bonds, and in furtherance of the covenant of the Board to pay the Swap Payments, the Board will take all actions necessary to (i) cause the levy and extension of Pledged Taxes, including any Pledged Taxes required to be levied in excess of those levied pursuant to the Bond Resolution, for collection on a timely basis to make all such payments and (ii) to cause such Pledged Taxes when extended for collection to be deposited directly with the Trustee for application pursuant to the Indenture.

Accounts and Reports

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries will be made of its transactions relating to the Pledged State Aid 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, the Bond Insurer 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 Section 148 of the Internal Revenue Code of 1986, as amended.

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 sixty (60) days after written notice

thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action until the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or

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

A payment by the Bond Insurer pursuant to the Bond Insurance Policy will not be considered a payment by the Board for the purposes described in paragraphs (1) through (4) above.

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 Bonds or 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 or enforce any of the rights or interests of the Owners of the Bonds under the Bonds or the Indenture.

All rights of action (including without limitation, the right to file proof of claims) under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

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 , including Bank Bonds, may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or for the exercise 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.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee has the power, but unless requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, is under no obligation to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

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 State Aid Revenues and Pledged Taxes and the income therefrom (other than amounts paid under the Bond Insurance Policy, which will be applied only to pay scheduled principal of and interest on the Bonds and any amounts not constituting part of the Trustee Estate) 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 (including Bank 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 is not sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which has become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not 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.

(3) to the payment of the Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on, 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, and any and all unpaid Swap Payments, or provision satisfactory to the Trustee is made for such payments, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor and all amounts owed to the Bond Insurer are paid in full, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Whenever moneys are to be applied as provided above, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply moneys to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such Record Date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Rights of Bond Insurer to Direct Remedies

Notwithstanding anything in the Indenture to the contrary, so long as the Bond Insurance Policy is in full force and effect and no Special Liquidity Default has occurred under the Liquidity Agreement, the Bond Insurer, acting alone, will (i) have the right to direct all remedies granted hereunder upon the occurrence of an Event of Default, (ii) will be recognized as the registered owner of each Insured Bond for the purposes of exercising all such rights and privileges available to the Owners of such Insured Bonds, and the Bond Insurer will have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Owner of an Insured Bond in accordance with the Indenture.

Under no circumstance may the Trustee declare the principal of or interest on the Bonds to be due and payable prior to the Maturity Date following the occurrence of an Event of Default under the indenture.

Notwithstanding anything in the Indenture to the contrary, the Trustee on behalf of the Owners of Bonds shall have the absolute right at all times to enforce the provisions of the

Liquidity Facility and the Bond Insurance Policy without any requirement of consent from either the Bank or the Bond Insurer.

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.

Nothing in the Indenture or in the Bonds contained shall affect or impair the general obligation, full faith and credit promise of the Board to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Remedies Conferred By The Act

The Board and the Trustee each acknowledge that Section 15(e) of the Act provides that all covenants of the Board relating to the issuance of the Bonds as alternate bonds pursuant to Section 15 of the Act and the conditions and obligations imposed by said Section 15 are enforceable by any Owner of the Bonds, any taxpayer of the Board and the people of the State of Illinois acting through the Attorney General of the State or any designee, and in the event that any such action results in an order finding that the Board has not properly collected and applied the Pledged State Aid Revenues as required by the Act, the plaintiff in any such action shall be awarded reasonable attorney's fees.

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.

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein.

Waiver

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

Provisions Relating to Trustee

Resignation and Removal of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than sixty (60) days' written notice to the Board, all Owners of the Bonds, the other Fiduciaries, the Remarketing Agent, the Auction Agent, the Bank and the Bond Insurer, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will take effect immediately on the 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 and accepted such appointment within a period of sixty (60) days following the giving of notice, then the Trustee, at the expense of the Board, 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 has occurred and is continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Bonds then Outstanding (excluding Bonds held by or for the account of the Board). The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, with Bond Insurer Approval, 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. Copies of each such instrument shall be delivered by the Board to each Fiduciary, the Remarketing Agent, the Auction Agent, the Bank and the Bond Insurer.

Appointment of Successor Trustee. In case at any time the Trustee resigns, 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 and the Bond Insurer.

If no appointment of a Trustee is made by the Board within sixty (60) days following such resignation or removal as described in the foregoing paragraph, the Trustee or the Owner of

any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

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

Supplemental Indentures

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

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

(ii) to impose other limitations or restrictions upon the Board;

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

(iv) to confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;

(v) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds as authorized herein;

(vi) to cure any ambiguity, omission or defect in the Indenture;

(vii) to provide for the appointment of a successor Securities Depository;

(viii) to provide for the appointment of any successor Fiduciary;

(ix) to provide for certificated Bonds;

(x) to implement a conversion of the interest rate on all or any portion of the Bonds to a Fixed Rate, an ARS Rate or a different Short Rate, all as provided herein, including, but not limited to, modifying, amending or supplementing the form of Bond to reflect, among other things, a change in the designated title of the Bonds, the fixing of an annual rate of interest, the termination of the rights of any Owner of Bonds to tender such Bonds for purchase, and the fact that the purchase price of, or interest on, the Bonds is no longer payable out of moneys drawn under the Liquidity Facility;

(xi) to amend the Auction Procedures in effect from time to time as authorized by the Indenture;

(xii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Liquidity Agreement and a Substitute Liquidity Facility, including, but not limited to, such provisions as are necessary to permit the issuer of such a Substitute Liquidity Agreement to provide credit support relating to payment of principal of and interest on the Bonds and a separate issuer of another Substitute Liquidity Agreement to provide liquidity support relating to payment of the purchase price of Bonds delivered or deemed delivered hereunder for purchase;

(xiii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Bond Insurance Policy;

(xiv) to evidence or give effect to or facilitate the delivery and administration under the Indenture of a letter of credit, a line of credit, a bond purchase agreement, an insurance policy or any other credit or liquidity device to secure the Bonds;

(xv) to secure or maintain ratings from any Rating Service in the highest short-term or commercial paper debt rating category, and the highest long-term debt rating category (each without giving effect to numeric or other qualifiers), of such Rating Service which are available for the Bonds, whether or not a Liquidity Facility secures the Bonds, which changes will not restrict, limit or reduce the obligation of the Board to pay the principal of, premium, if any, and interest on the Bonds as provided in the Indenture or otherwise adversely affect the Owners of the Bonds under the Indenture;

(xvi) to effect a change in the optional redemption schedule for Bonds in a Fixed Mode pursuant to the Indenture, or to effect a change in redemption price in accordance with the Indenture; and

(xvii) 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 and Bond Insurer."

Consent of Bank. As long as (i) a Liquidity Facility is in effect or any Bank Bonds are outstanding, or (ii) the Bank Obligations remain unsatisfied, any Supplemental Indenture not effective as described under "Supplemental Indentures Not Requiring Consent of Owners" above will not become effective unless and until the Trustee shall have received Bank Approval. In this regard, the Trustee, at the Board's direction, will cause notice of the proposed execution of any such Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed to the Bank at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Bank will be deemed to have denied consent to the execution and delivery of such Supplemental Indenture if the Trustee does not receive a letter of approval thereto signed by or on behalf of the Bank or on or before the fifteen Business

Day after the mailing of said notice. In addition, the Board will provide the Bank with notice of any Supplemental Indenture effective in accordance with the Indenture promptly upon its execution and delivery.

Consent of Bond Insurer. As long as (i) a Bond Insurance Policy is in effect, or (ii) the Bond Insurer Obligations remain unsatisfied, any Supplemental Indenture not effective as described under "Supplemental Indentures Not Requiring Consent of Owners" above will not become effective unless and until the Trustee has received Bond Insurer Approval. In this regard, the Trustee, at the Board's direction, will cause notice of the proposed execution of any such Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed to the Bond Insurer at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Bond Insurer will be deemed to have denied consent to the execution and delivery of such Supplemental Indenture if the Trustee does not receive a letter of approval thereto signed by or on behalf of the Bank on or before the fifteenth Business Day after the mailing of said notice. In addition, the Board will provide the Bond Issuer with notice of any Supplemental Indenture effective in accordance with the Indenture promptly upon its execution and delivery.

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 and the Bond Insurer will each have the right, from time to time, to (i) consent to and approve the execution by the Board and the Trustee of such other indenture or indentures supplemental to the Indenture 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 indenture thereto; provided, however, that nothing in this paragraph or as described under "Supplemental Indentures Not Requiring Consent of Owners" above permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, (b) 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, (c) except for the pledge of the Pledged State Aid 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, (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, (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 and Bond Insurer. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the (A) Owners of the required aggregate principal amount of Outstanding Bonds and (B) the Bond Insurer, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereto 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 Trustee will deliver to the Board proof of the mailing of such notice. A record, consisting of the information required or permitted by the Indenture to be delivered by or to the Trustee, will be proof of the matters therein stated.

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 and the Bond Insurer, 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. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

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, and satisfies in

full the Bond Insurer Obligations and the Bank Obligations, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners, the Bond Insurer and the Bank will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, will 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 will execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent will 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 or the satisfaction of Bond Insurer Obligations or Bank Obligations. If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion will 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 and satisfies in full the Bond Insurer Obligations and the Bank Obligations specifically related thereto, such Bonds, Bond Insurer Obligations and Bank Obligations will 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, the Bond Insurer and the Bank 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 publish or 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, without further reinvestment, 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 (in the case of Bonds bearing interest at a Short Rate, (i) such opinion as to sufficiency may be based on amounts sufficient to pay interest on the Bonds for such Rate Period as then may be in effect for which the interest rate or rates are then known and thereafter at the then applicable Maximum Interest Rate and (ii) such specified redemption date will be the earlier of the first possible date upon which such Bonds may be tendered or redeemed under the Indenture), and (d) if any of said Bonds are not to be redeemed within the next succeeding sixty (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 and moneys deposited with the Trustee pursuant to this Section shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so

held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on said Bonds, at maturity or upon redemption, as the case may be.

THE DEFEASANCE OBLIGATIONS (OR ANY PORTION THEREOF) HELD FOR THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AS DESCRIBED IN THE PRECEDING PARAGRAPH MAY NOT BE SOLD, REDEEMED, INVESTED, REINVESTED OR REMOVED FROM THE LIEN OF THE INDENTURE IN ANY MANNER OR OTHER DEFEASANCE OBLIGATIONS SUBSTITUTED THEREFOR (ANY SUCH DIRECTION TO SELL, REDEEM, INVEST, REINVEST, REMOVE OR SUBSTITUTE TO BE REFERRED TO AS A "SUBSEQUENT ACTION") UNLESS PRIOR TO THE TAKING OF SUCH SUBSEQUENT ACTION, THE TRUSTEE HAS RECEIVED THE FOLLOWING: (I) EITHER (A) A CERTIFIED COPY OF THE PROCEEDINGS OF THE BOARD AUTHORIZING THE SUBSEQUENT ACTION, OR (B) AN OPINION OF COUNSEL FOR THE BOARD TO THE EFFECT THAT SUCH SUBSEQUENT ACTION HAS BEEN DULY AUTHORIZED BY ALL NECESSARY ACTION ON THE PART OF THE BOARD; (II) AN OPINION FROM A NATIONALLY RECOGNIZED FIRM OF INDEPENDENT PUBLIC ACCOUNTANTS TO THE EFFECT THAT THE DEFEASANCE OBLIGATIONS AND CASH AVAILABLE OR TO BE AVAILABLE FOR PAYMENT OF THE BONDS AFTER THE TAKING OF THE SUBSEQUENT ACTION WILL REMAIN SUFFICIENT TO PAY, WITHOUT ANY FURTHER REINVESTMENT THEREOF, THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AT OR PRIOR TO THEIR MATURITY IN THE MANNER PROVIDED IN THE PRECEDING PARAGRAPH; (III) AN OPINION OF BOND COUNSEL TO THE EFFECT THAT THE SUBSEQUENT ACTION WILL NOT ADVERSELY AFFECT ANY EXEMPTION FROM FEDERAL INCOME TAX OF THE INTEREST PAID ON THE BONDS TO WHICH SUCH BONDS ARE OTHERWISE ENTITLED; AND (IV) SUCH OTHER DOCUMENTS AND SHOWINGS AS THE TRUSTEE MAY REASONABLY REQUIRE.

APPENDIX C

Form of Opinions of Co-Bond Counsel

[Letterhead of Respective Co-Bond Counsel]

[Closing Date]

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

Lehman Brothers, Inc.
as Representative of the Underwriters
190 South LaSalle Street
Chicago, Illinois 60603

J.P. Morgan Trust Company,
National Association, as Trustee
227 West Monroe Street
Chicago, Illinois 60603

Re: $325,000,000 Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues)

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the "Board") of its $325,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues) (the "Bonds") consisting of (i) $37,945,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D-1 and $157,055,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D-2 (together, the "Series 2005D Bonds) and (ii) $65,000,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005E-1 and $65,000,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005E-2 (together, the "Series 2005E Bonds"). As Co-Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Series 2005D Bonds and the Series 2005E Bonds are each being issued pursuant to separate Trust Indentures dated as of December 1, 2005 (the "Indentures"), each by and between the Board and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"). The Bonds are issued pursuant to the authority of the School Code, 105 ILCS 5, the Local Government Debt Reform Act, 30 ILCS 350 and a resolution adopted by the Board on November 16, 2005 (the "Bond Resolution") and the Indentures. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indentures, as applicable.

The Bonds are issued for the purpose of (i) acquiring and equipping school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District"), (ii) paying interest on the Bonds to

become due on March 1, 2006 and (iii) paying certain costs of issuance of the Bonds, including premiums related to bond insurance, a liquidity facility for the Series 2005D Bonds and a liquidity facility for the Series 2005E Bonds.

The Bonds are dated the date hereof, are being issued in fully registered form, and mature on the dates set forth in the Indenture. As provided in the Indenture, the Bonds of a sub-series may bear interest from time to time at a Daily Rate, a Weekly Rate, a Flexible Rate, an Auction Rate, a Term Rate or a Fixed Rate and under certain circumstances, the Bonds of a sub-series may bear interest at a Bank Rate, all pursuant to the terms and conditions of the Indenture.

In our capacity as Co-Bond Counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings of the Board adopting the Bond Resolution and authorizing, among other things, the execution and delivery of the Indentures and the issuance of the Bonds;

(b) a certified copy of the Bond Resolution;

(c) an executed counterpart of each of the Indentures; 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 each of the Indentures.

2. The Indentures have been duly and lawfully executed and delivered by the Board and, assuming their due authorization, execution and delivery by, and their binding effect on, the Trustee, the Indentures are valid and binding upon the Board and enforceable in accordance with their terms.

3. Each of the Indentures creates the valid pledge, which they purports to create of the Trust Estate held or set aside or pledged under the Indentures, respectively, subject to the application thereof to the purposes and on the conditions permitted by the Indentures, respectively.

4. The Bonds have been duly and validly authorized and issued in accordance with law and the Indentures, as applicable, 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 Indentures, as applicable.

5. The forms of Bond prescribed for said issues are in due form of law.

6. The Bonds are payable ratably and equally (i) from the "*Pledged Revenues*," being that amount of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended, or such successor or replacement fund or act as may be enacted in the future, not in excess of $175,000,000 in any

year, as shall provide for the payment of the Bonds, and the provision of not less than an additional .10 times debt service on the Bonds in such year and (ii) from the "*Pledged Taxes,*" being the *ad valorem* taxes levied again all of the taxable property in the School District governed by the Board 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 Collectors of the Counties of Cook and DuPage, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indentures.

8. Subject to the condition that the Board comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under present law, the Bonds are not "private activity bonds" under Section 141 of 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. Interest on the Bonds will be taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain 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 its 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.

9. Interest on the Bonds is not exempt from Illinois income taxes.

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

MAYER, BROWN, ROWE & MAW, LLP

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APPENDIX D

Specimen Municipal Bond Insurance Policy

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: _____ Policy No.: CIFG NA-##

CUSIP: _____ Effective Date: _____, 200_

OBLIGATIONS:

SPECIMEN

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

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

CIFG ASSURANCE NORTH AMERICA, INC.

By _____
Authorized Officer

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APPENDIX E

Information Concerning
DEPFA BANK plc, New York Branch
(the "Series 2005D Initial Bank")

The following information has been provided by the Bank (at times referred to hereinafter as "DEPFA") for use in this Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Board or any Remarketing Agent. This information has not been independently verified by the Board or any Remarketing Agent. No representation is made by the Board or any Remarketing Agent as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DEPFA BANK plc ("DEPFA") is the parent company of the DEPFA BANK plc group of companies comprising DEPFA and its consolidated subsidiaries (the "Group"). DEPFA will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of DEPFA BANK plc, Dublin. DEPFA is based in Dublin and has a banking license issued under the Irish Central Bank Act, 1971 (as amended) and is supervised by the Financial Regulator. It is registered in the Irish companies Registration Office with company number 348819 and its shares are listed on the Frankfurt Stock Exchange. DEPFA has a network of subsidiaries, branches and offices across many European countries, as well as in North America and Asia.

The Group provides a broad range of products and services to public sector entities, from governmental budget financing and financing of infrastructure projects to placing of public sector assets and investment banking and other advisory services. The Group has direct client contacts with many state entities and focuses on those public sector entities involved in large volume business. The Group advises individual public sector borrowers on their international capital market transactions and preparations for the ratings process.

As of December 31, 2004, DEPFA had total consolidated assets of Euro 190.4 billion, shareholders' equity of Euro 1.9 billion and consolidated net income of Euro 540 million, determined in accordance with the United States generally accepted accounting principles (US GAAP). DEPFA maintains its records and prepares its financial statements in Euro. At December 31, 2004, the exchange rate was 1.0000 Euro equals 1.3621 United States dollars. Such exchange rate fluctuates from time to time.

DEPFA is rated "Aa3" long-term and "P-1" short-term by Moody's, "AA-" long-term and "A-1+" short-term by S&P, and "AA-" long-term and "F1+" short-term by Fitch. On April 18, 2005, Fitch confirmed DEPFA's long term and short term rating. On November 25, 2005, S&P confirmed DEPFA's long term and short term rating. On December 2, 2005, the long-term ratings of DEPFA were placed on Watch List for review for possible downgrade by Moody's, although DEPFA's short-term ratings have not been affected.

DEPFA will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: DEPFA BANK plc, New York Branch, 623 Fifth Avenue, 22nd Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date. In addition, updated financial information may be found from the DEPFA website at: www.depfa.com.

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APPENDIX F
Information Concerning
Dexia Credit Local
(the "Series 2005E Initial Bank")

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 19 billion euros as of December 31, 2004, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2004 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2004, total funding raised by Dexia and Dexia Municipal Agency was 11.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2004, Dexia had total consolidated assets of 206.0 billion euros, outstanding medium and long-term loans to customers of 168.13 billion euros and shareholders' equity of over 4.32 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 705 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2004, the exchange rate was 1.0000 euro equals 1.3621 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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BOARD OF EDUCATION OF THE CITY OF CHICAGO • UNLIMITED TAX GENERAL OBLIGATION BONDS (DEDICATED REVENUES) SERIES 2005 D-1 & D-2 AND SERIES 2005 E-1 & E-2