

In the opinion of Katten Muchin Rosenman LLP and Burriss, Wright, Slaughter & Tom, LLC, Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Bonds will not be includable in gross income for federal income tax purposes. The Bonds are not "private activity bonds" and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income." However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from Illinois income taxes. See "TAX EXEMPTION" herein.



\$246,180,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues)
\$193,585,000 \$52,595,000
Series 2005A Series 2005B



Dated: June 27, 2005

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

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 Amalgamated Bank of Chicago, as trustee, bond registrar and paying agent for the Bonds to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the 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 disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See “THE BONDS – Book-Entry Only System” herein. The Bonds of each series are issuable in denominations of \$5,000 and any integral multiples thereof.

The proceeds from the sale of the Bonds, together with certain moneys of the Board, will be used (i) to advance refund certain of the Board’s outstanding bonds, and (ii) to pay costs of issuance of the Bonds. See “PLAN OF FINANCE” and “SOURCES AND USES OF PROCEEDS.”

The Bonds of each series will be a general obligation of the Board to the payment of which the Board has pledged its full faith and credit. The Series 2005A Bonds will be payable from Pledged State Aid Revenues and Pledged Taxes, all as described herein. The Series 2005B Bonds will be payable from Pledged PPRT Revenues and Pledged Taxes, all as described herein. To the extent that either the Pledged State Aid Revenues are insufficient to pay the debt service on the Series 2005A Bonds or the Pledged PPRT Revenues are insufficient to pay the debt service on the Series 2005B Bonds, the Bonds of each such series, as applicable, will be payable from ad valorem taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds of each series are also payable from all Funds, Accounts and Sub-Accounts (each as defined in Appendices B and C hereto) established pursuant to the applicable Indenture as security for each series of Bonds. See “SECURITY FOR THE BONDS.”

Interest on each series of Bonds will be payable on each June 1 and December 1, commencing December 1, 2005. The scheduled payment of principal of and interest on the Bonds of each series when due will be guaranteed under a financial guaranty insurance policy for each series to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the “Bond Insurer”). See “BOND INSURANCE.”



The Series 2005A Bonds will not be subject to optional or mandatory sinking fund redemption prior to maturity. The Series 2005B Bonds will not be subject to mandatory sinking fund redemption, but will be subject to optional 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 Katten Muchin Rosenman LLP, Chicago, Illinois, and Burriss, Wright, Slaughter & Tom, LLC, Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel, Gardner Carton & Douglas LLP, Chicago, Illinois; and for the Underwriters by their co-counsel, DLA Piper Rudnick Gray Cary US LLP, Chicago, Illinois, and Sanchez Daniels & Hoffman, Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about June 27, 2005.

UBS Financial Services Inc.**William Blair & Company****A.G. Edwards and Sons, Inc.****Blaylock & Company, Inc.****Podesta & Co.****SBK Brooks Investment Corp.**

June 14, 2005

\$193,585,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues)
Series 2005A

MATURITY SCHEDULE

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>
2013	\$ 6,095,000	5.00%	110.096%	1675012D6
2014	6,405,000	5.00	110.432	1675012E4
2015	6,720,000	5.25	113.029	1675012F1
2016	7,085,000	5.25	113.337	1675012G9
2017	7,455,000	5.50	115.958	1675012H7
2018	7,860,000	5.50	116.370	1675012J3
2019	8,300,000	5.50	116.559	1675012K0
2020	8,755,000	5.50	116.889	1675012L8
2021	9,240,000	5.50	117.270	1675012M6
2022	9,750,000	5.50	117.584	1675012N4
2023	10,290,000	5.50	117.693	1675012P9
2024	10,855,000	5.50	117.733	1675012Q7
2025	11,455,000	5.50	117.859	1675012R5
2026	12,090,000	5.50	117.932	1675012S3
2027	12,760,000	5.50	117.955	1675012T1
2028	13,465,000	5.50	118.096	1675012U8
2029	14,200,000	5.50	118.201	1675012V6
2030	14,990,000	5.50	118.270	1675012W4
2031	15,815,000	5.50	118.483	1675012X2

\$52,595,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues)
Series 2005B

MATURITY SCHEDULE

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>
2013	\$14,565,000	5.00%	110.096%	1675012Y0
2014	15,295,000	5.00	110.432	1675012Z7
2021	22,735,000	5.00	107.659	1675013A1

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 set forth herein has been furnished by the Board, DTC and other sources that the Board believes to be reliable. Such information is 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 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. Such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters.

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 each Indenture for the Bonds. Copies of the Indenture for each series of Bonds are available for inspection at the offices of the Board and the Trustee. The information contained herein is provided as of the date hereof and is subject to change.

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

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

Certain capitalized terms used in this Official Statement and in the Indenture for each series of Bonds are defined in APPENDICES B AND C and unless otherwise indicated shall have the respective meanings set forth therein.

Other than with respect to information concerning Ambac Assurance Corporation (the “Bond Insurer”) contained under the caption “BOND INSURANCE” and APPENDIX F – “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.

This Official Statement contains disclosures which contain “forward-looking statements.” Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” or “continue.” These forward-looking statements are based on the current plans and expectations of the Board and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control, that could significantly affect current plans and expectations and the Board’s future financial position including but not limited to changes in general economic conditions, demographic trends and federal and State funding of programs which may affect the transfer of funds from such governments to the Board. As a consequence, current plans, anticipated actions and future financial positions may differ from those expressed in any forward-looking statements made by the Board herein. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement.

**BOARD OF EDUCATION OF
THE CITY OF CHICAGO**

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Vice President

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Patrick J. Rocks
General Counsel

Katten Muchin Rosenman LLP
Burris, Wright, Slaughter & Tom, LLC
Co-Bond Counsel

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

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\$246,180,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues)

\$193,585,000
Series 2005A

\$52,595,000
Series 2005B

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of its \$246,180,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005. The Series 2005 Bonds will be issued in two series: (1) Series 2005A in the principal amount of \$193,585,000 (the "Series 2005A Bonds"); and (2) Series 2005B in the principal amount of \$52,595,000 (the "Series 2005B Bonds") (collectively, the Series 2005A Bonds and Series 2005B Bonds are referred to herein as the "Bonds" or the "Series 2005 Bonds"). The proceeds from the sale of the Series 2005A Bonds, together with certain moneys of the Board, will be used to (i) advance refund \$35,810,000 outstanding principal amount of the Board's Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2001A (the "Series 2001A Refunded Bonds") and \$174,575,000 outstanding principal amount of the Board's Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2001C (the "Series 2001C Refunded Bonds"), all maturing in the years as set forth in APPENDIX G and (ii) pay costs of issuance of the Series 2005A Bonds. The proceeds from the sale of the Series 2005B Bonds, together with certain moneys of the Board, will be used to (i) advance refund \$53,975,000 outstanding principal amount of the Board's Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the "Series 1997 Refunded Bonds"), all maturing in the years as set forth in APPENDIX G and (ii) pay costs of issuance of the Series 2005B Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS."

The Bonds of each series will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds of each series 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) Section 15 of the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), which provides that alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act ("Alternate Bonds"), may, upon meeting certain requirements of the Debt Reform Act, be issued to refund previously issued Alternate Bonds, and (iii) a resolution adopted by the Board on May 25, 2005 (the "Bond Resolution").

Each series of Bonds will be issued under a separate Trust Indenture, dated as of June 1, 2005 (the "Indenture"), by and between the Board and Amalgamated Bank of Chicago, as trustee (the "Trustee"). The Bonds of each series will be secured by and are payable (i) from the Pledged 2005 Alternate Revenues (as defined below) for the applicable series, (ii) to the extent that the Pledged 2005 Alternate Revenues are insufficient to pay the debt service on the Bonds of

such series, from the *ad valorem* taxes levied by the Board, pursuant to the 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 applicable Indenture as security for the Bonds of such series (the “Pledged Taxes”) and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the applicable Indenture for the applicable series, other than Escrow Funds.

The Pledged 2005 Alternate Revenues for each series of Bonds consist of the following: (i) with respect to the Series 2005A Bonds, those amounts (the “Pledged State Aid Revenues”) of State Aid Revenues (as defined herein) not in excess of (A) amounts available under the 1998 Authorization (as defined herein) with respect to those Bonds of the Series 2005A Bonds in the aggregate principal amount of \$33,310,000 used to refund the Series 2001A Refunded Bonds, and (B) amounts available under the 2001 Authorization (as defined herein) with respect to those Bonds of the Series 2005A Bonds in the aggregate principal amount of \$160,275,000 used to refund the Series 2001C Refunded Bonds, in each case in amounts each year equal to 1.25 times the debt service payments on the Series 2005A Bonds payable from such State Aid Revenues as set forth in the Indenture for the Series 2005A Bonds; and (ii) with respect to the 2005B Bonds, the annual amounts (the “Pledged PPRT Revenues”) of Personal Property Replacement Tax Revenues (as defined herein) that are received by the Board in any year and remaining after any required allocation thereof to provide for the payment of the Statutory Claims (as defined herein) and subject to the prior lien of the Board’s Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996, outstanding, in the principal amount of \$58,560,000 (the “Series 1996 Bonds”), its Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, outstanding, in the principal amount of \$89,645,000, after giving effect of the refunding (the “Series 1997 Bonds”), in amounts each year equal to 1.25 times the debt service payments on the Series 2005B Bonds payable from such Personal Property Replacement Tax Revenues as set forth in the Indenture. For additional information see “SECURITY FOR THE BONDS – General,” “- General State Aid – Series 2005A Bonds” and “- Personal Property Replacement Taxes – Series 2005B Bonds.” For a discussion of obligations of the Board payable from the Board’s annual receipt of General State Aid and Personal Property Replacement Tax Revenues see “- Prior Alternate Bonds” below.

The Bonds of each series will bear interest from the date of original issuance thereof, payable on June 1 and December 1 (each such date, an “Interest Payment Date”), commencing December 1, 2005, at the rates set forth on the inside cover hereof.

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

Prior Alternate Bonds

General. The Board has previously issued Alternate Bonds payable from sources that, in some instances, include State Aid Revenues and Personal Property Replacement Tax Revenues as discussed herein. In the event such sources are insufficient or not available for payment of such bonds, the bonds are payable from *ad valorem* taxes levied by the Board. For additional

information, see “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.”

Secured by State Aid Revenues. Those Bonds of the Series 2005A Bonds that are used to refund the Series 2001A Refunded Bonds as set forth in the Indenture for such Bonds, with respect to the pledge of the Pledged State Aid Revenues, are on a parity with outstanding Alternate Bonds of the Board issued pursuant to a resolution adopted by the Board on August 26, 1998 (the “1998 Authorization”) and outstanding in the amount of \$463,715,000 after giving effect to the refunding of the Refunded Bonds. Those Bonds of the Series 2005A Bonds that are used to refund the Series 2001C Refunded Bonds as set forth in the Indenture for such Bonds, with respect to the pledge of the Pledged State Aid Revenues, are on parity with outstanding Alternate Bonds of the Board issued pursuant to a resolution adopted by the Board on September 26, 2001 (the “2001 Authorization”) and outstanding in the amount of \$313,750,000 after giving effect to the refunding of the Refunded Bonds. Outstanding obligations of the Board are, and additional obligations of the Board in the future may be, secured by pledges of State Aid Revenues to be received by the Board in amounts set forth in other resolutions authorizing the issuance of Alternate Bonds. None of such obligations have a claim on that portion of the State Aid Revenues received in each year by the Board constituting the Pledged State Aid Revenues, and the Series 2005A Bonds are not secured by that portion of the State Aid Revenues received in each year by the Board as provided in such other resolutions. See “SECURITY FOR THE BONDS – General” and “– General State Aid – Series 2005A Bonds.”

Secured by Personal Property Replacement Tax Revenues. The Series 2005B Bonds are being issued on a parity basis, as to the claim on Personal Property Replacement Tax Revenues, with the Board’s outstanding \$499,995,204.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the “Series 1997A Bonds”), its outstanding \$14,000,000 Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the “Series 1998 Bonds”), its outstanding \$328,714,364.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues) Series 1998B-1 (the “Series 1998B-1 Bonds”), its outstanding \$532,553,135.50 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A (the “Series 1999A Bonds”) and \$177,040,000 of its outstanding \$205,410,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues) 2004A (the “Series 2004A Bonds”). The lien of the 2005B Bonds, the Series 2004A Bonds, the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds and the Series 1999A Bonds on the Personal Property Replacement Tax Revenues is junior in priority to that of the outstanding Series 1996 Bonds and Series 1997 Bonds. See “SECURITY FOR THE BONDS – General” and “– Personal Property Replacement Taxes – Series 2005B Bonds.”

PLAN OF FINANCE

General

Proceeds of the Bonds, together with other moneys available to the Board (the “Board Deposit”), will be used to refund all or a portion of certain maturities of outstanding general obligation bonds of the Board. The table attached to this Official Statement as APPENDIX G – “General Obligation Bonds to be Refunded by the Bonds” sets forth the series designation, original CUSIP, maturity date, interest rate, principal amount and redemption date and price for

each maturity of bonds to be refunded with proceeds of the Bonds (collectively, the “Refunded Bonds”). Proceeds of the Bonds will also be used for payment of certain costs of issuance of the Bonds.

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

The Government Obligations will be held in three separate escrow accounts (each, a “Refunding Escrow Account” and, collectively, the “Refunding Escrow Agreements”), one for each series of the Refunded Bonds, established under three separate Refunding Escrow Agreements, each dated as of June 1, 2005 (each, a “Refunding Escrow Agreement”), and by and between (i) the Board and Seaway National Bank of Chicago, as escrow agent, with respect to the Series 2001A Refunded Bonds, (ii) the Board and Amalgamated Bank of Chicago, as escrow agent, with respect to the Series 2001C Refunded Bonds, and (iii) the Board and Amalgamated Bank of Chicago, as escrow agent, with respect to the Series 1997 Refunded Bonds. Funds held in each Refunding Escrow Account will not serve as security or be available for payment of principal of or interest on the Bonds. The Refunded Bonds will be legally defeased in accordance with the applicable provisions of the respective indentures under which each series of Refunded Bonds were originally issued and will no longer have any lien or claim on State Aid Revenues or Personal Property Replacement Tax Revenues, as applicable, pledged for their payment.

The mathematical computation of the adequacy of the Refunding Escrow Accounts to provide for payments of the Refunded Bonds as described above will be verified at the time of the delivery of the Bonds by Grant Thornton LLP, independent certified public accountants. See “CERTAIN VERIFICATIONS.”

SOURCES AND USES OF PROCEEDS

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

SERIES 2005 BONDS

	<u>Series 2005A</u> <u>Bonds</u>	<u>Series 2005B</u> <u>Bonds</u>
SOURCES OF FUNDS		
Bond Proceeds:		
Par Amount	\$193,585,000	\$52,595,000
Premium	32,676,804	4,807,330
Board Deposit ⁽¹⁾	<u>5,422,816</u>	<u>2,048,570</u>
TOTAL ⁽³⁾	<u>\$231,684,619</u>	<u>\$59,450,900</u>
 USES OF FUNDS		
Deposit into Refunding Escrow Accounts	\$224,746,614	\$57,731,869
Deposit to Interest Sub-Accounts ⁽²⁾	4,513,125	1,124,949
Costs of Issuance (including Underwriters’ Discount and Premium for Bond Insurance Policy)	<u>2,424,881</u>	<u>594,082</u>
TOTAL ⁽³⁾	<u>\$231,684,619</u>	<u>\$59,450,900</u>

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

⁽²⁾ Represents an amount which is sufficient to pay interest on the Bonds to and including December 1, 2005.

⁽³⁾ Totals may not be exact due to rounding.

THE BONDS

General

The Bonds of each series initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York (“DTC”). Details of payments of the Bonds and the book-entry only system are described below under the subcaption “– Book-Entry Only System.” Except as described under the subcaption “– Book-Entry Only System” below, beneficial owners of the Bonds will not receive or have the right to receive physical delivery of Bonds, and will not be or be considered to be the registered owners thereof. Accordingly, beneficial owners must rely upon (i) the procedures of DTC and, if such beneficial owner is not a DTC “Participant” (as defined below), the Participant who will act on behalf of such beneficial owner to receive notices and payments of principal 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.

The Bonds of each series will be dated the date of original issuance thereof and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Bonds of each series will be issued only as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Bonds of each series will bear interest from the date of original issuance thereof, payable on June 1 and December 1 of each year, commencing December 1, 2005, at the rates set forth on the inside cover page hereof. Each Bond will bear interest from the later of its date or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of such Bond is paid or duly provided for. Interest on the Bonds of each series will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on each Bond of each series will be payable on each Interest Payment Date to the person in whose name the Bond is registered at the close of business on the fifteenth day of the calendar month next preceding each Interest Payment Date. See APPENDIX B – “Summary of Certain Provisions of the Indenture.”

Redemption

Optional Redemption – Series 2005A Bonds. The Series 2005A Bonds are not subject to optional redemption.

Optional Redemption – Series 2005B Bonds. The Series 2005B Bonds maturing on December 1, 2021, are subject to redemption prior to maturity at the option of the Board, as a whole or in part, on any date on or after December 1, 2015, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption.

No Mandatory Sinking Fund Redemption. The Series 2005 Bonds are not subject to mandatory redemption prior to maturity.

Redemption Procedures. If less than all of the Series 2005B Bonds of like maturity are called for optional redemption under provisions of the Indenture for such series permitting partial redemption, the particular Bonds (or portions thereof) to be redeemed will be selected at random by the Trustee in a manner that the Trustee in its discretion may deem fair and appropriate; *provided, however*, that the portion of any Bond of a denomination of more than \$5,000 will be in the principal amount of an Authorized Denomination and that, in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of denominations of \$5,000 which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. If the Series 2005B Bonds are held in book-entry only form, the particular Bonds of such series or portions thereof to be redeemed will be selected by the securities depository for the Bonds of such series in accordance with the procedures of such securities depository.

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 Series 2005B

Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds, which notice shall specify, among other things, the maturities of the Bonds to be redeemed, the redemption date, the redemption price, the place and manner of payment and, if less than all of the Bonds of such series of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice will also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. Such notice shall further state that on the redemption date there will become due and payable the redemption price of each Bond to be redeemed, or the redemption price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date, interest will cease to accrue on the Bonds which are the subject of such notice. Notice of the redemption of Bonds will be given by first class mail, postage prepaid, not less than 30 days and not more than 60 days prior to the redemption date, to the registered owners of the Bonds to be redeemed at their addresses as shown on the registration books maintained by the bond registrar. 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.

Bond Registration and Transfers

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

Book-Entry Only System

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered 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 is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides assets servicing for over 2.2 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 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 the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. For example, Beneficial Owners of the 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, 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, or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, principal, interest and premium, if any, payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, interest and premium, if any, payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Once the Board has requested that holders withdraw from DTC, DTC will notify its Participants of such request and such Participants may utilize

DTC's withdrawal process to withdraw their Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Bond certificates will be printed and delivered.

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

NEITHER THE BOARD NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

SECURITY FOR THE BONDS

General

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

The Bonds of each series will be payable from and secured by a pledge of (i) an amount that, in each year that such series of Bonds are outstanding, shall provide for the payment of annual debt service on the Bonds of such series (with respect to each series, the "Pledged 2005 Alternate Revenues"), consisting of (a) with respect to the Series 2005A Bonds only, payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future ("State Aid Revenues"), not in excess of amounts available under the 1998 Authorization (with respect to those Bonds of the Series 2005A Bonds in the aggregate principal amount of \$33,310,000 used to refund the Series 2001A Refunded Bonds) and the 2001 Authorization (with respect to those Bonds of the 2005A Bonds in the aggregate principal amount of \$160,275,000 used to refund the Series 2001C Bonds) as shall provide for debt service on the Series 2005A Bonds in each year as set forth in the Indenture for the Series 2005A Bonds and the provision of not less than an additional .25 times such amounts in such years (the "Pledged State Aid Revenues"), and (b) with respect to the Series 2005B Bonds only, the amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act, as amended, or from such successor or replacement fund or act as may be enacted in the future ("Personal Property Replacement Tax Revenues"), that are received or to be received by the Board in any year and remaining after any required allocation thereof to provide for the payment of the Statutory Claims (as defined herein) and subject to the prior lien of the Series

1996 Bonds and the Series 1997 Bonds as shall provide for debt service on the Series 2005B Bonds in each year as set forth in the Indenture for the Series 2005B Bonds and the provision of not less than an additional .25 times such amounts in such years (the “Pledged PPRT Revenues”), (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the applicable Indenture as security for the Bonds (the “Pledged Taxes”), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture for such series of Bonds, other than funds held pursuant to the Refunding Escrow Agreements, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture for such series of Bonds. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged 2005 Alternate Revenues for a particular series of Bonds are not available in sufficient amounts to pay the debt service on the Bonds of such series.

As described above under “INTRODUCTION – Prior Alternate Bonds – Secured by State Aid Revenues,” as to the lien on the Pledged State Aid Revenues, the Series 2005A Bonds will be payable on a parity basis with outstanding Alternate Bonds of the Board issued pursuant to the 1998 Authorization and the 2001 Authorization and any Additional Bonds issued pursuant to the 1998 Authorization or the 2001 Authorization. The Board has also authorized the issuance of obligations payable from the State Aid Revenues which obligations do not have a claim on State Aid Revenues that constitute the Pledged State Aid Revenues.

As described above under “INTRODUCTION – Prior Alternate Bonds – Secured by Personal Property Replacement Tax Revenues,” the Series 2005B Bonds will be payable, as to the lien on Personal Property Replacement Tax Revenues, on a parity basis with the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds and the Series 2004A Bonds (collectively, the “Outstanding Parity Bonds”). The Series 1996 Bonds and the Series 1997 Bonds (collectively, the “Outstanding Senior Bonds”) are also payable from and secured by a pledge of Personal Property Replacement Tax Revenues and the lien of the Outstanding Senior Bonds on Personal Property Replacement Tax Revenues is senior in priority to that of the Outstanding Parity Bonds.

In connection with the issuance of the Series 2005B Bonds, the Board will enter into a Third Restated Master Alternate Bonds Escrow Agreement (the “Master Escrow Agreement”) with Amalgamated Bank of Chicago, as escrow agent (the “Master Escrow Agent”). In order to provide for the payment of Personal Property Replacement Tax Revenues that have been pledged to the payment of the Series 2005B Bonds, the Outstanding Senior Bonds, the Outstanding Parity Bonds and the Statutory Claims, the Board has directed the Department of Revenue of the State of Illinois (the “Department of Revenue”) to deposit all proceeds of the Personal Property Replacement Tax Revenues annually allocated and paid to the Board with the Master Escrow Agent. Under the Master Escrow Agreement, the Master Escrow Agent will annually distribute such deposits: *first*, to the Board, in an amount necessary to pay any Statutory Claims for the subject year; *second*, to the respective trustees for the Outstanding Senior Bonds in amounts sufficient to provide for the payment of debt service for the subject year pursuant to the respective indentures for the Outstanding Senior Bonds; and *third*, to the Trustee and the respective trustees for the Outstanding Parity Bonds in amounts sufficient to provide for the

payment of debt service for the subject year pursuant to the Indenture for the Series 2005B Bonds and the respective indentures for the Outstanding Parity Bonds.

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

General State Aid – Series 2005A Bonds

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, prior to fiscal year 2003, came from the most recently available federal census. In May 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, beginning with the fiscal year 2004, a new poverty count prepared by the Illinois Department of Human Services is used. The fiscal year 2004 count was an average of the 2002 and 2003 count of children who were 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 amended in 1997, and 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. No assurance can be given that the “foundation level” will be increased or even funded at current levels in future fiscal years.

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 in 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 2001 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.

Fiscal Years 2001 - 2005
(Dollars in Millions)

Fiscal Year	Total GSA Claim ⁽¹⁾	Supplemental General State Allocation	Unrestricted GSA General Fund Deposit ⁽²⁾
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 2005A 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 AEA”). 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 AEA, provided that the Board elects to apply its full, current operating tax rate to the New AEA 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 AEA 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 AEA 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.

Personal Property Replacement Taxes – Series 2005B Bonds

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

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

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

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

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

1978 and *next* toward payment of the proportionate share of the pension and retirement obligations of the Board which were previously levied and collected from extensions against personal property. Such prior claims on Personal Property Replacement Tax Revenues are referred to herein as the “Statutory Claims.”

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

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

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the (i) Series 2005A Bonds if the Pledged State Aid Revenues are insufficient and (ii) Series 2005B Bonds if Pledged PPRT 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 the Pledged State Aid Revenues and Pledged PPRT Revenues, the Board anticipates that all Pledged Taxes will be abated. To the extent that the Pledged State Aid Revenues are not available in sufficient amounts, the debt service on the Series 2005A Bonds is payable from the Pledged Taxes and to the extent that the Pledged PPRT Revenues are not available in sufficient amounts, the debt service on the Series 2005B Bonds is payable from Pledged Taxes. In the event the Pledged Taxes are extended for collection, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage attributable to the levy of the Pledged Taxes for the payment of the debt service on the Series 2005A Bonds or the Series 2005B Bonds, as applicable, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the applicable Indenture. The Board has covenanted in the Indenture for each series 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 of such series governed by such Indenture. 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 for each series establishes a Debt Service Fund as a separate fund pledged to the payment of debt service on the Bonds of the series to which such Indenture relates. Each Indenture also establishes four separate accounts in the Debt Service Fund, known as (i) with respect to the Indenture for the Series 2005A Bonds, the “Pledged State Aid Revenues Account” consisting of the “Interest Deposit Sub-Account” and the “Pledged State Aid Revenues Sub-Account,” the “Pledged Taxes Account,” the “Bond Payment Account” and the “Swap Payment Account” and (ii) with respect to the Indenture for the Series 2005B Bonds, the “Pledged PPRT Revenues Account” consisting 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 PPRT Revenues Sub-Account,” the “Pledged Taxes Account,” the “Bond Payment Account” and the “Swap Payment Account.” The Bond Payment Account under each Indenture consists of the Interest Sub-Account and the Principal Sub-Account.

The Trustee will deposit to the credit of the Interest Deposit Sub-Account for each series of Bonds (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 Swap Providers under any Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. Amounts so deposited to the credit of the Interest Deposit Sub-Account for each series of Bonds will be transferred to the Interest Sub-Account for such series of Bonds and applied to pay interest on the Bonds of the applicable series as it becomes due on each Interest Payment Date as described below under “Payment of Debt Service on the Bonds.”

Application of Pledged 2005 Alternate Revenues – Series 2005A Bonds

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 with respect to the Series 2005A Bonds as 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 Sub-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 interest on and principal of the Series 2005A Bonds scheduled to be paid from Pledged State Aid Revenues during the twelve-month period beginning on the preceding December 2 (a “Bond Year”), as set forth in the Indenture for the Series 2005A Bonds. With respect to Pledged State Aid Revenues, 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 amount required by the Indenture governing the Series 2005A Bonds, the Board will take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged State Aid Revenues Account, to provide funds sufficient to satisfy the requirements described in this paragraph.

On or before February 16 of each year, whenever sufficient funds are on deposit in the Pledged State Aid Revenues Account to pay the principal of and interest on the Series 2005A Bonds due during the current Bond Year, the Trustee shall deliver to the Board a notice

evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes with respect to the Series 2005A Bonds.

Application of Pledged 2005 Alternate Revenues – Series 2005B Bonds

The Pledged PPRT Revenues received by the Trustee from the Master Escrow Agent pursuant to the Master Escrow Agreement will be deposited promptly upon receipt into the Deposit Sub-Account of the Pledged PPRT Revenues Account, until there shall be on deposit in said Sub-Account an amount of Pledged PPRT Revenues sufficient to pay all of the interest on and principal of the Series 2005B Bonds scheduled to be paid from Pledged PPRT Revenues during the Bond Year beginning on December 2 of such year, as set forth in the Indenture for the Series 2005B Bonds. Promptly after an amount sufficient to satisfy the foregoing requirement has been deposited into the Deposit Sub-Account in any year, the Trustee shall notify the Board of the satisfaction of that condition, whereupon the Board will take such actions as are necessary to abate the Pledged Taxes levied for the then-current year in full. Further, not earlier than December 3 of each year nor later than the last Business Day of each year, the Trustee shall transfer all amounts on deposit in the Deposit Sub-Account into the Pledged PPRT Revenues Sub-Account.

In the event that as of the last Business Day of any year there is an insufficient amount on deposit in the Deposit Sub-Account of the Pledged PPRT Revenues Account to satisfy the requirement described in the preceding paragraph, the Trustee shall notify the Board of that fact and the amount of the shortfall and the Board shall take such actions as are necessary to cause the extension of the Pledged Taxes levied for such year in an amount sufficient, when added to the amount then on deposit in the Deposit Sub-Account, to provide for the payment of the interest on and principal of the Series 2005B Bonds due during the then current Bond Year and scheduled to be paid from Pledged PPRT Revenues and shall, on the last Business Day of such year, transfer all amounts on deposit in the Deposit Sub-Account (whether or not such amounts are sufficient for the payment of debt service on the Series 2005B Bonds) into the Pledged PPRT Revenues Sub-Account.

All amounts on deposit in the Pledged PPRT Revenues Sub-Account on December 2 of each year shall be withdrawn from the Pledged PPRT Revenues Sub-Account and paid to the Board free and clear of the lien of the Indenture for the Series 2005B Bonds, which withdrawal shall be made prior to any deposit to the Pledged PPRT Revenues Sub-Account described in the two preceding paragraphs.

Payment of Debt Service on the Bonds

For each series of Bonds, the Trustee shall transfer, first, from moneys on deposit in the Pledged Taxes Account for such series, second, from moneys in the Interest Deposit Sub-Account for such series and, third, with respect to the Series 2005A Bonds, from moneys on deposit in the Pledged State Aid Revenues Sub-Account and, with respect to the Series 2005B Bonds, from moneys on deposit in the Pledged PPRT Revenues Sub-Account, applicable, (i) first, to the Interest Sub-Account of the Bond Payment Account with respect to such series of Bonds on or before each Interest Payment Date for such series of Bonds, the amount required for the interest payable on such date, less the amount then on deposit in such Interest Sub-Account

and available for such payment; and (ii) to the Principal Sub-Account of the Bond Payment Account with respect to such series of Bonds, on or before each December 1, an amount equal to the principal amount of the Bonds, if any, which mature on such date.

With respect to the Series 2005A Bonds only, all amounts on deposit in the Pledged State Aid Revenues Sub-Account on December 2 of each year, following the transfers required to be made to the Bond Payment Account for the Series 2005A Bonds as described above and transfers required to be made to the Swap Payment Account for the Series 2005A Bonds as described in “Swap Payment Account” below, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture for the Series 2005A Bonds.

Swap Payment Account

For each series of Bonds, after deducting the amount required to be transferred to the Principal Sub-Account on the next succeeding December 1 and provided the Board is not in default with respect to the payment of interest on such series of Bonds, there shall be transferred into the Swap Payment Account for such series on each date specified in the relevant 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 for such series, and *third* from the Pledged State Aid Revenues Sub-Account or Pledged PPRT Revenues Sub-Account, as applicable, an amount equal to the sum of each Swap Payment then owing under each Swap Agreement on such Swap Payment Date. The Trustee shall use such amounts to pay amounts due to the respective Swap Provider on each Swap Payment Date pursuant to payment instructions specified in the relevant Swap Agreement and provided to the Trustee and the Board by such Swap Provider. For each series of Bonds, all payments of Swap Payments to be paid from Pledged Taxes shall be subordinate to the payment of principal of and interest on such series of Bonds and all payments of Swap Payments to be paid from Pledged State Aid Revenues, with respect to the Series 2005A Bonds, and Pledged PPRT Revenues, with respect to the Series 2005B Bonds, shall be subordinate to the payment of principal of and interest on the applicable series of Bonds and any Additional Bonds issued with respect to such series.

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged 2005 Alternate Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture for each series of Bonds are pledged to the payment of the Bonds of such series, and may not be applied to the payment of the Bonds of the other series. See APPENDIX B – “Summary of Certain Provisions of the Indenture for the Series 2005A Bonds” and APPENDIX C – “Summary of Certain Provisions of the Indenture for the Series 2005B Bonds.”

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

The Board may issue Additional Bonds from time to time payable on a parity with the Bonds from all or any portion of the State Aid Revenues or the Personal Property Replacement Tax Revenues or any other source of payment which may be pledged under the Debt Reform

Act; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Subject only to compliance with such provisions of the Debt Reform Act, there is no limit on the aggregate principal amount of Additional Bonds, which may be issued by the Board.

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

Bonds Are General 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 for a series of Bonds 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 the Bonds of that series insured under the Bond Insurance Policy for purposes of consenting to any supplements or amendments to the Indenture of such series as may be required under the Indenture for such series.

BOND INSURANCE

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

Payment Pursuant to Financial Guaranty Insurance Policy

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.

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy” or “Bond Insurance Policy”) relating to each series of the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of

Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, paying agent or bond registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

The Bond Insurer

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,585,000,000 (unaudited) and statutory capital of approximately \$5,251,000,000 (unaudited) as of March 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance" and the specimen financial guaranty insurance policy attached as Appendix F.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005; and
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

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

Under the School Code, the School Board is responsible for approving the annual budget, approving contracts (including collective bargaining agreements), levying real property taxes and

establishing general policies of the Board. The current members of the School Board are as follows:

Michael W. Scott is President of the School Board. He is currently President of MS & Associates, LLC and he was formerly Vice President of Regulatory Affairs for Comcast Corporation. He is also a commissioner on the Public Building Commission of Chicago. He was formerly the Executive Director of the Lawndale People's Planning and Action Council and ultimately, Vice President of Pyramidwest Development Corporation. He also has served under the late Mayor Harold Washington as Special Assistant to the Mayor, Director for the Mayor's Office of Special Events, and Chief Cable Administrator for the City of Chicago's Office of Communication. Prior to being elected President, Mr. Scott served as a member of the Board and chaired its committee on real estate. Mr. Scott currently serves on the Board of Directors for the Community Bank of Lawndale and for a number of civic and charitable organizations, including, among others, Mount Sinai Hospital, Better Boys Foundation and the Chicago Historical Society.

Clare Muñana is Vice President of the School Board and a public sector management and international consultant with over 20 years of domestic and international business experience. Ms. Muñana is a graduate of Boston College, where she received her Bachelor of Arts degree in Political Science and Spanish Literature. She earned a Masters in International Economics and Politics from the School of Advanced International Studies of Johns Hopkins University and a Masters of Management from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana is active in several civic and cultural organizations.

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

Dr. Tariq Butt is a Board Certified Family Physician with teaching appointments at the University of Illinois' Medical College, Rush University Medical School, and the Faculty with Mt. Sinai Family 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, a position from which he resigned to serve on the School Board. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards.

Alberto A. Carrero, Jr. is Senior Vice President and Public Banking Manager of Banco Popular North America ("Banco Popular"), the country's largest Hispanic-owned bank. He also serves as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago. Prior to joining Banco Popular, Mr. Carrero worked for the Federal Deposit Insurance Company (FDIC) in the New York Region. He graduated from the University of Puerto Rico with a degree

in Business Administration and Finance. Mr. Carrero has been the recipient of numerous awards from Illinois and New York City and State agencies for excellence in business.

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. She helped develop, and serves as Executive Director for the annual Black Corporate Directors Conference sponsored by Ariel and Russell Reynolds Associates. 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 has 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
Norman R. Bobins.....	June 30, 2006
Dr. Tariq Butt.....	June 30, 2007
Clare Muñana, Vice President	June 30, 2006
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 University. Mr. Duncan serves on the boards of directors for the Ariel Education Initiative, The Children’s Center, City Year, the Illinois Council Against Handgun Violence and the South Side YMCA, and serves on the Visiting Committee for the University of Chicago’s School of Social Service Administration.

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

supervision from Chicago State University, and a Doctorate in education, with a specialty in curriculum and instruction, from Loyola University, Chicago.

David Vitale is the Chief Administration Officer of the Board, overseeing all of the educational support departments, including Finance, Budget, Operations, Human Resources, Technology, Security, Procurement and Business Diversity. In February of 2003, Mr. Vitale joined the Board as Senior Advisor to the Chief Executive Officer, on a full-time, pro-bono basis to improve efficiencies of the school system. Prior to joining the Board, Mr. Vitale served as President and Chief Executive Officer of the Chicago Board of Trade. In addition to serving as a member of the CBOT's Board of Directors and Executive committee, Mr. Vitale also served as President and CEO of the MidAmerica Commodity Exchange, an affiliate of CBOT. Mr. Vitale is a graduate of Harvard University and earned an 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 an 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 1,395 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,085 additional students. These new classrooms are distributed throughout 21 new schools, 8 replacement schools, 34 additions and 27 annexes. Additionally, 2,094 renovations have been completed to date including new roofs at 372 schools, new windows for 347 schools, and masonry work for 330 schools. Over 779 local area network projects have been completed. The Board anticipates undertaking a similar number of renovation projects and installing local area networks in its remaining schools in the coming years. Finally, approximately 282 play lots and 16 athletic fields have been renovated to provide students with safe facilities for play and sports.

To finance the Capital Improvement Program, the Board has issued approximately \$3.9 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of April 30, 2005, approximately \$3.5 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 to 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 CPS 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 42.9% of elementary school students are reading at or above national norms, while 47.4% are performing at or above national norms in math. Overall, reading scores are up 16.4 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, 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 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 procedures 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 adopted a balanced budget for fiscal year 2005 that reflected total resources, including \$30.3 million of available fund balances and appropriations of \$4.0 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 2005 ⁽⁴⁾
	2000	2001	2002	2003	2004	
Revenues:						
Property Taxes	\$1,352,374	\$1,379,010	\$1,429,307	\$1,495,382	\$1,520,557	\$1,582,000
Replacement Taxes	89,142	71,230	57,193	48,852	61,897	72,800
State Aid	1,247,174	1,275,707	1,336,586	1,307,229	1,329,390	1,442,000
Federal Aid	497,673	552,311	539,573	602,677	703,821	832,300
Investment Income	36,347	42,501	16,505	20,803	18,779	16,300
Other	<u>65,515</u>	<u>78,107</u>	<u>66,917</u>	<u>76,609</u>	<u>87,545</u>	<u>72,300</u>
Total Revenues	<u>\$3,288,225</u>	<u>\$3,398,866</u>	<u>\$3,446,081</u>	<u>\$3,551,552</u>	<u>\$3,721,989</u>	<u>\$4,017,700</u>
Expenditures						
Instruction	\$1,888,879	\$1,995,423	\$2,152,958	\$2,214,781	\$2,355,114	\$2,460,000
Pupil Services	301,714	303,071	311,628	320,380	327,653	349,000
Support Services	684,365	730,187	750,111	764,002	770,629	954,000
Food Services	161,614	166,365	160,063	170,238	180,588	187,000
Community Services	73,792	73,718	47,523	47,253	49,933	32,000
Capital Outlay		394				
Teachers' Pension	65,045	65,045	65,045	65,045	65,045	65,000
Other	<u>9,093</u>	<u>18,916</u>	<u>6,558</u>	<u>13,742</u>	<u>9,548</u>	<u>1,000</u>
Total Expenditures	<u>\$3,184,502</u>	<u>\$3,353,119</u>	<u>\$3,493,886</u>	<u>\$3,595,441</u>	<u>\$3,758,510</u>	<u>\$4,048,000</u>
Revenues in Excess of (less than) Expenditures	\$ 103,723	\$ 45,747	\$ (47,805)	\$ (43,889)	\$ (36,521)	\$ (30,300)
Other Financing Sources	<u>11,436</u>	<u>(46,797)⁽²⁾</u>	<u>1,527</u>	<u>7,711</u>	<u>15,071</u>	<u>—</u>
Change in Fund Balance						
Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	\$ 115,159	\$ (1,050)	\$ (46,278)	\$ (36,178)	\$ (21,450)	\$ (30,300)
Fund Balance, Beginning of Period	449,793	564,952	411,412	365,134	328,956	307,506
Impact of Adopting GASB No. 33 ⁽³⁾	<u>—</u>	<u>(152,490)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund Balance, End of Period	<u>\$ 564,952</u>	<u>\$ 411,412</u>	<u>\$ 365,134</u>	<u>\$ 328,956</u>	<u>\$ 307,506</u>	<u>\$ 277,206</u>
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	\$ 102,623	\$ 149,675	\$ 118,726	\$ 78,879	\$ 67,542	\$ 67,542
Specific Purposes	<u>69,272</u>	<u>60,217</u>	<u>36,525</u>	<u>41,718</u>	<u>43,454</u>	<u>13,154</u>
Total Reserved Fund Balance	<u>\$ 171,895</u>	<u>\$ 209,892</u>	<u>\$ 155,251</u>	<u>\$ 120,597</u>	<u>\$ 110,996</u>	<u>\$ 80,696</u>
Unreserved:						
Designated to Provide						
Operating Capital	\$ 295,900	\$ —	\$ 201,500	\$ 161,233	\$ 171,300	\$ 171,300
Undesignated	<u>97,157</u>	<u>201,520</u>	<u>8,383</u>	<u>47,126</u>	<u>25,210</u>	<u>25,210</u>
Total Unreserved	<u>\$ 393,057</u>	<u>\$ 201,520</u>	<u>\$ 209,883</u>	<u>\$ 208,359</u>	<u>\$ 196,510</u>	<u>\$ 196,510</u>
Total Fund Balance	\$ 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 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 the Debt Service Funds 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 Estimate as published by Budget Department. The approved 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 \$3.265 billion aggregate principal amount of outstanding Alternate Bond debt, excluding the Refunded Bonds. The Board's outstanding long-term debt also consists of approximately \$476.0 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 June 14, 2005
(Dollars in Thousands)**

	Amount
Direct Debt	
Series 2005A Bonds.....	\$ 193,585
Series 2005B Bonds.....	52,595
Other Outstanding General Obligation Alternate Bonds ⁽⁸⁾	3,264,788
Leases Securing PBC Bonds (principal component)	<u>476,044</u>
Total Direct Debt	<u>\$3,987,012</u>

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt ⁽¹⁾			
City	\$5,224,802	100.00%	\$ 5,224,802
School Finance Authority	268,075	100.00%	268,075
Community College District	78,610	100.00%	78,610
Chicago Park District ⁽²⁾	518,195	100.00%	518,195
Water Reclamation District	1,307,824	45.15%	590,483
Cook County	3,093,165	44.19%	1,366,869
Forest Preserve District	135,155	44.19%	<u>59,725</u>
Total Overlapping Debt			<u>\$ 8,106,758</u>
Total Direct and Overlapping Debt			<u>\$ 12,093,770</u>

Selected Debt Statistics

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

	<u>Per Capita</u>⁽⁷⁾	<u>EAV</u>	<u>FMV</u>
Direct Debt	\$1,376.72	7.50%	1.513%
Total Direct and Overlapping Debt	\$4,176.00	22.75%	4.590%

(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	\$ 78,610,000
Chicago Park District	\$ 24,060,000

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

(3) Cook County only.

(4) Source: United States Census Bureau.

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

(6) Source: The Civic Federation.

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

(8) Excludes the principal amounts of the Refunded Bonds.

Board's Debt Service Schedule

Calendar Year	Prior Bonds ^{1,2,3}	PBC Leases ¹	The Series 2005 Bonds	Total Annual Debt Service
2005	\$154,284,153	\$51,572,450	\$ 5,638,074	\$211,494,677
2006	149,314,083	51,990,050	13,179,913	214,484,046
2007	155,244,168	52,037,000	13,179,913	220,461,081
2008	157,849,516	52,096,838	13,179,913	223,126,267
2009	232,917,241	52,103,825	13,179,913	298,200,979
2010	236,442,269	52,163,338	13,179,913	301,785,520
2011	251,316,549	52,232,025	13,179,913	316,728,487
2012	231,873,663	52,318,625	13,179,913	297,372,201
2013	232,392,676	52,359,513	33,839,913	318,592,102
2014	221,640,349	52,430,550	33,846,913	307,917,812
2015	248,863,631	52,467,613	17,781,913	319,113,157
2016	239,954,385	52,519,550	17,794,113	310,268,048
2017	237,249,180	52,600,125	17,792,150	307,641,455
2018	242,618,032	52,664,600	17,787,125	313,069,757
2019	267,413,095	30,635,500	17,794,825	315,843,420
2020	297,295,033	-	17,793,325	315,088,358
2021	275,286,240	-	40,531,800	315,818,040
2022	270,419,045	-	16,661,850	287,080,895
2023	292,639,694	-	16,665,600	309,305,294
2024	290,378,171	-	16,664,650	307,042,821
2025	287,766,129	-	16,667,625	304,433,754
2026	287,746,232	-	16,672,600	304,418,832
2027	257,523,964	-	16,677,650	274,201,614
2028	349,479,423	-	16,680,850	366,160,273
2029	288,700,665	-	16,675,275	305,375,940
2030	288,710,108	-	16,684,275	305,394,383
2031	288,710,476	-	16,684,825	305,395,301
2032	75,765,422	-	-	75,765,422
2033	43,858,795	-	-	43,858,795
2034	28,246,267	-	-	28,246,267
2035	<u>13,142,838</u>	-	-	<u>13,142,838</u>
	\$6,895,041,492	\$762,191,602	\$479,594,736	\$8,136,827,836

- (1) Debt service payments include principal and interest due to and including the following January 1.
- (2) Interest on \$303,000,000 of variable rate, Series 2000B, Series 2000C and Series 2000D Bonds is calculated at an assumed rate of 6% per annum; although actual rates may vary, interest on \$183,775,000 of auction rates Series 2003B Bonds is calculated at the swap rate of 3.782% based on a 360-day year consisting of twelve 30-day months; interest on approximately \$72,575,000 of auction rate Series 2003D-1 and Series 2003D-2 Bonds is calculated at an assumed rate of 5% per annum; interest on \$185,350,000 of auction rates Series 2003D-2, Series 2003D-3 and Series 2003D-4 Bonds is calculated at the swap rate of 3.771% based on a 360-day year consisting of 12 30-day months; interest on \$298,075,000 of auction rates Series 2004B Bonds is calculated at the swap rate of 3.5439% based on a 360-day year consisting of 12 30-day months. Interest on \$222,080,000 of variable rate Series 2004C, Series 2004D and Series 2004E Bonds is calculated at an assumed rate of 4.5% per annum, although actual rates may vary.
- (3) Includes Other Outstanding General Obligation Alternate Bonds.

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	<u>(37,921)</u>	<u>(38,379)</u>	<u>(37,965)</u>	<u>(37,486)</u>	<u>(36,226)</u>
Net funded debt	<u>\$ 975,878</u>	<u>\$ 924,104</u>	<u>\$ 873,201</u>	<u>\$822,356</u>	<u>\$772,289</u>
Unfunded Debt:					
Contracts, leases, purchase orders and outstanding judgments.....	136,682	185,554	146,367	108,828	100,346
Asbestos abatement loans.....	<u>15,438</u>	<u>13,253</u>	<u>11,833</u>	<u>10,413</u>	<u>8,994</u>
Net unfunded debt	152,120	198,807	158,200	119,241	109,340
Total debt	<u>\$ 1,127,998</u>	<u>\$ 1,122,911</u>	<u>\$ 1,031,401</u>	<u>\$941,597</u>	<u>\$881,629</u>
Statutory debt margin ⁽²⁾	<u>\$ 3,751,953</u>	<u>\$ 4,464,313</u>	<u>\$ 4,763,062</u>	<u>\$5,315,014</u>	<u>\$6,456,571</u>

- (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 or the Series 2005 Bonds (in the aggregate principal amount of \$3.275 billion), which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Interest Rate Swap Agreements

The Board entered into two interest rate swap agreements (the “Series 2003B Swap Agreements”) in connection with the issuance of its \$183,775,000 Unlimited Tax General Obligations Bonds, Series 2003B and two interest rate swap agreements (the “Series 2003D Swap Agreements”) in connection with the issuance of its \$257,925,000 Unlimited Tax General Obligations Bonds (Dedicated Revenues), Series 2003D. In connection with the issuance of the Series 2004B Bonds, the Board entered into two swap agreements (the “Series 2004B Swap Agreements”) in an aggregate notional amount of \$298,075,000. Under such agreements, the Board pays each provider an amount based on a fixed rate and receives an amount based on a percentage of BMA/LIBOR from each provider. In all instances, the Board has entered into the swap agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate

bonds at the time of issuance and (2) limiting the interest rate risk inherent in variable rate debt. In addition, the Board entered into a third swap agreement in connection with the issuance of the Series 2004B Bonds (the “Series 2004B Basis Swap Agreement” and, together with the Series 200B Interest Rate Swap Agreements, the “Series 2004B Swap Agreements”). The purpose of the Series 2004B Basis Swap Agreement is to mitigate the basis risk described under this caption that is associated with the Series 2004B Swap Agreements.

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

The Board will be exposed to “basis risk” should the rate paid on the bonds subject to a Swap Agreement exceed the rate payable to the Board pursuant to the related Swap Agreements. Should any adverse basis differential occur while a Swap Agreement is in effect, the rate paid on the bonds that are subject to the Swap Agreement will be higher than the synthetic fixed rate, and therefore the expected interest cost savings may not be realized.

The Board may terminate a Swap Agreement at any time at market value. In addition, the Board or a swap provider may terminate a Swap Agreement under certain other conditions. If a Swap Agreement is terminated, the bonds subject to that Swap Agreement would no longer carry a synthetic fixed interest rate, and the Board would be subject to the interest rate risk associated with variable rate debt. Also, if, at the time of termination, a Swap Agreement has a negative market value, the Board would be liable to the applicable swap provider for a termination payment equal to the swap’s market value. Such termination payment may be substantial.

Employee Pension Obligations

Funding of Pension Obligations. Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers’ Pension and Retirement Fund of Chicago, a separate legal entity (the “Pension Fund”). See APPENDIX A – “Audited Financial Statements for Fiscal Year 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 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 \$26.3 million to the Pension Fund in fiscal year 2006.

Debt Management Policy

Due to changes in the financial markets, the Board recently adopted a new Debt Management Policy (the "Debt Policy") on April 27, 2005, which replaced the Debt Management Policy initially adopted on October 23, 1996. 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, 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 www.cps.k12.il.us. 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 www.cps.k12.il.us. 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 three years.

The Regional Transportation Authority (the “RTA”) is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county area of northeastern Illinois, including Cook County. These include the CTA, METRA, the suburban rail division, and PACE, the suburban bus division. The RTA is governed by a 13-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail

sales in the six-county area and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

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

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

Chicago School Finance Authority

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

Establishment. In 1979 and early 1980, the Board experienced severe financial difficulties. In January 1980, as part of a plan to address these financial difficulties, the Illinois General Assembly established the Chicago School Finance Authority (the “Authority”). The Authority is governed by a five-member board of directors: two directors are appointed by the Mayor with the approval of the Governor; two directors are appointed by the Governor with the approval of the Mayor; and 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 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 2000 and August 2001, the PTAB rendered two series of decisions in which it granted reduced Assessed Valuations to the owners of certain real property by employing lower levels of assessment. In the March 2000 decisions, the PTAB elected to utilize the median levels of assessment derived from the Illinois Department of Revenue's sales-ratio studies (the "Sales-Ratio Studies") as the mechanism for determining correct assessment levels, instead of those set forth in the Classification Ordinance. Use of the Sales-Ratio Studies resulted in a lower assessment level than required by the Classification Ordinance. In its August 2001 decisions, after examining the Sales Ratio Studies, the PTAB held that the Assessor's assessment practices violated a provision of the State Constitution, which limits the level of assessment of the highest class of property, in a county that classifies property, to two and one-half times the level of assessment of the lowest class of property in that county. As a result, the PTAB established a maximum assessment level that is significantly below the assessment levels for commercial and industrial property currently set forth in the Classification Ordinance.

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

In November of 2002, the Appellate Court heard oral argument on the PTAB's August 2001 decisions concerning the two and one-half times level of assessment. In December of 2003, the Appellate Court issued its decision and remanded the cases to the PTAB with directions to apply the level of assessment contained in the Classification Ordinance, concluding that the taxpayer did not timely raise proper challenges so as to justify the relief granted. In reaching this conclusion, the Court did not consider the PTAB's reading of the constitutional ratio limitation or the PTAB's use of Sales-Ratio Studies as authority to deviate from the Classification Ordinance. Both the PTAB and the property owner have appealed the Appellate Court's December 2003 decision to the Illinois Supreme Court. On March 26, 2004, the Court denied the 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, in a case known by Docket No. 03-1716.

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

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

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

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

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body’s jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the “Assessment Base”). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See “– Property Tax Extension Limitation Law; Issuance of Alternate Bonds” below. For a listing of the Equalization Factors for the ten years ended December 31, 2003, see “– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1993-2003.”

Exemptions. 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, 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 of (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 2003 was November 15, 2004. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years.

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

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

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

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

The Illinois Property Tax Extension Limitation Law (the "Limitation Law"), previously applicable only to non-home rule taxing districts located in DuPage, Kane, Lake, McHenry and Will Counties, was extended in 1995 to non-home rule taxing districts in Cook County, including the Board. The effects of the Limitation Law are to limit or retard the growth in the amount of property taxes that can be extended for a non-home rule taxing body and to impose direct

referendum requirements upon the issuance of certain types of general obligation bonds by such non-home rule taxing bodies.

The Limitation Law specifically limits the annual growth in property tax extensions for the Board to the lesser of 5% or the percentage increase in the Consumer Price Index for All Urban Consumers during the calendar year preceding the relevant tax 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 Bond Issue Notification Act (the “Bond Issue Notification Act”) requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony.

Property Tax Information

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

ASSESSED, EQUALIZED ASSESSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY 1994-2003
(Dollars in Thousands)

Tax Year Levy ⁽⁹⁾	Assessed Values ⁽¹⁾					State Equalization Factor ⁽²⁾	Total Equalized Assessed Value ⁽³⁾	Total Estimated Fair Cash Value ⁽⁴⁾	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
	Class 2 ⁽⁵⁾	Class 3 ⁽⁶⁾	Class 5 ⁽⁷⁾	Other ⁽⁸⁾	Total				
2003	\$12,677,199	\$2,233,572	\$10,303,731	\$487,680	\$25,702,182	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.
- (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.
- (9) Triennial updates of assessed valuation occurred in years 1994, 1997, 2000 and 2003.

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

Levy Year⁽²⁾	Extension	First Year Collections		Cumulative Collections⁽¹⁾	
		Amount	Percent	Amount	Percent
2004	\$1,734,478	\$ 748,825	43.2%	\$ 748,825	43.2%
2003	1,670,337	1,565,921	93.7	1,645,922	98.5
2002	1,614,473	1,548,369	95.9	1,588,440	98.4
2001	1,571,962	1,519,630	96.7	1,558,048	99.1
2000	1,503,488	1,446,847	96.2	1,479,381	98.4
1999	1,451,206	1,408,124	97.0	1,429,717	98.5
1998	1,416,346	1,317,872	93.0	1,383,680	97.7
1997	1,362,211	1,304,701	95.8	1,327,976	97.5
1996	1,331,437	1,293,278	97.1	1,283,643	96.4
1995	1,291,784	1,240,528	96.0	1,238,500	95.9

(1) Tax receivables is net of Estimated Allowance for Uncollectible taxes (the "Allowance"). The Allowance for the calendar year 2004 levy is 3.5% of the levy.

(2) The 2004 tax extensions year reflects collections through May 6, 2005.

Source: Board of Education of the City of Chicago

Real Property Tax Rates⁽¹⁾
(per \$100 equalized assessed valuation)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Tax Rates by Board Fund:⁽²⁾										
Educational	\$2.262	\$3.196	\$3.202	\$2.998	\$3.059	\$3.000	\$2.756	\$2.712	\$2.670	\$2.258
Special Education.....	0.038	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare.....	0.030	0.034	0.023	0.022	0.044	0.048	0.047	0.031	0.017	0.000
Agricultural Science.....	0.008	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Building.....	0.429	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Playground and Recreational	0.076	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Textbook	0.105	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment										
Compensation Tort Immunity.....	0.229	0.254	0.222	0.246	0.192	0.206	0.141	0.191	0.150	0.219
Teachers' Pension	0.248	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance.....	0.565	0.594	0.709	0.719	0.722	0.701	0.640	0.685	0.609	0.565
Bond Redemption & Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals.....	<u>0.177</u>	<u>0.173</u>	<u>0.171</u>	<u>0.099</u>	<u>0.155</u>	<u>0.149</u>	<u>0.130</u>	<u>0.125</u>	<u>0.116</u>	<u>0.100</u>
Board Subtotal	<u>\$4.167</u>	<u>\$4.251</u>	<u>\$4.327</u>	<u>\$4.084</u>	<u>\$4.172</u>	<u>\$4.104</u>	<u>\$3.714</u>	<u>\$3.744</u>	<u>\$3.562</u>	<u>\$3.142</u>
Other Major Government Units:										
City of Chicago	2.158	2.131	2.182	2.024	1.998	1.860	1.660	1.637	1.591	1.380
Community College District	0.372	0.376	0.377	0.356	0.354	0.347	0.311	0.307	0.280	0.246
School Finance Authority	0.265	0.296	0.291	0.270	0.268	0.255	0.223	0.223	0.177	0.151
Chicago Park District.....	0.741	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545	0.464
Water Reclamation District.....	0.495	0.495	0.492	0.451	0.444	0.419	0.415	0.401	0.371	0.361
Cook County	0.993	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690	0.630
Cook County Forest Preserve.....	<u>0.073</u>	<u>0.072</u>	<u>0.074</u>	<u>0.074</u>	<u>0.072</u>	<u>0.070</u>	<u>0.069</u>	<u>0.067</u>	<u>0.061</u>	<u>0.059</u>
Other Unit Subtotal.....	<u>\$5.097</u>	<u>\$5.094</u>	<u>\$5.126</u>	<u>\$4.759</u>	<u>\$4.700</u>	<u>\$4.432</u>	<u>\$4.074</u>	<u>\$3.948</u>	<u>\$3.715</u>	<u>\$3.291</u>
TOTAL.....	\$9.264	\$9.345	\$9.453	\$8.843	\$8.872	\$8.536	\$7.788	\$7.692	\$7.277	\$6.433

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

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

TAX EXEMPTION

Summary of Co-Bond Counsel Opinion

Co-Bond Counsel is of the opinion that under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), Co-Bond Counsel is of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel is further of the opinion that the Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from Illinois income taxes.

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds.

Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the Bonds is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Bonds is given special treatment for Federal income tax purposes. If the Offering Price is higher than the maturity value of a Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Bond on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Bond for Federal income tax purposes, to the same extent and with the same limitations as current interest.

Owners who purchase Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Bonds. In addition, owners of

Bonds should consult their tax advisors with respect to the state and local tax consequences of owning the Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for Federal income tax purposes.

Exclusion from Gross Income: Requirements

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Among these requirements are the following:

Limitations on Private Use. The Code includes limitations on the amount of Bond proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

Investment Restrictions. Except during certain "temporary periods," proceeds of the Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a "minor portion") may generally not be invested in investments having a yield that is "materially higher" than the yield on the Bonds.

Rebate of Arbitrage Profit. Unless the Board qualifies for an exemption, earnings from the investment of the "gross proceeds" of the Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term "gross proceeds" includes the original proceeds of the Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Bonds.

Covenants to Comply

The Board has covenanted in each Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Risks of Non-Compliance

In the event that the Board fails to comply with the requirements of the Code, interest on the Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue. In such event, each Indenture requires neither acceleration of payment of principal of, or interest on, the Bonds nor payment of any additional interest or penalties to the owners of the Bonds.

Federal Income Tax Consequences

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 that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below.

PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

Cost of Carry. Owners of the Bonds will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Bonds. As discussed below, special allocation rules apply to financial institutions.

Corporate Owners. Interest on the Bonds is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Bonds is taken into account not only in computing the corporate alternative minimum tax but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

Individual Owners. Receipt of interest on the Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

Certain Blue Cross or Blue Shield Organizations. Receipt of interest on the Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

Property or Casualty Insurance Companies. Receipt of interest on the Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

Financial Institutions. Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Bonds.

Foreign Personal Holding Company Income. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Bonds held by such a company is properly allocable to the shareholder.

The opinion of Co-Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Bonds are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Bonds.

RATINGS

The Bonds are expected to receive ratings of “AAA” by Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”), “AAA” by Fitch, Inc. (“Fitch”) and

“Aaa” by Moody’s Investors Services (“Moody’s”) based on the Bond Insurance Policy to be issued by the Bond Insurer.

Each series of Bonds has also received ratings of “A+” by Standard & Poor’s, “A+” by Fitch and “A2” by Moody’s based on the creditworthiness of the Board and without regarding to bond insurance or other credit enhancement.

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

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the fiscal 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

UBS Financial Services, Inc., as Representative of the Underwriters identified on the cover page of this Official Statement, has agreed to purchase the Series 2005A Bonds at an aggregate purchase price of \$225,169,517.20 (representing an aggregate principal amount of \$193,585,000.00 plus \$32,676,803.85 of net original issue premium and less \$1,092,286.65 of Underwriters’ discount) and the Series 2005B Bonds at an aggregate purchase price of \$57,133,969.00 (representing an aggregate principal amount of \$52,595,000 plus \$4,807,330.45 of net original issue premium and less \$268,361.45 of Underwriters’ discount). The Bonds will be offered to the public at the price of par, as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds, if any 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 VERIFICATIONS

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

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinions of Katten Muchin Rosenman LLP and Burris, Wright, Slaughter & Tom, LLC, both of Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinions is included herein as APPENDIX E. Certain legal matters will be passed upon for the Board by Patrick J. Rocks, General Counsel, and by its special counsel, Gardner Carton & Douglas LLP, Chicago, Illinois; and for the Underwriters by their Co-Counsel, DLA Piper Rudnick Gray Cary US LLP and Sanchez Daniels & Hoffman, both of Chicago, Illinois.

LITIGATION

General

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

Upon delivery of the 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.

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 a Quality Inn Hotel (the "Hotel"). The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at the 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 Hotel.

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

Dispute Over Pension Fund Claims for Reimbursement

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

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

Should the Fund's interpretation be found correct in a court action, the Board will be required to pay the Fund the specified contribution for each employee who elects the ERO. While it is not possible to know with any certainty the number of employees who will elect the

ERO under these circumstances, if the maximum number (30% of eligible employees) take advantage of it, the Board's estimated liability could be approximately \$38,000,000. The Board is unable to predict the outcome of this dispute at the present time.

CONTINUING DISCLOSURE UNDERTAKING

The Board will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the Beneficial Owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934.

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

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

Annual Financial Information Disclosure

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

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System

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

Board's Overlapping Debt Schedule

The Annual Financial Information, excluding the Audited Financial Statements, will be provided to each NRMSIR and to the SID, if any, not later than 210 days after the last day of the Board's fiscal year.

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

Events Notification; Material Events Disclosure

The Board covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”) and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The “Events” are (i) debt service payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Bonds; and (xi) rating changes.

Consequences of Failure to Provide Information

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

A default under the Undertaking shall not be deemed an event of default under the Bond Resolution or the applicable Indenture, and the sole remedy in the event of any failure of the Board to comply with the Undertaking shall be an action to compel performance. A failure by the Board to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Amendment; Waiver

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

(a) (i) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Board, or type of business conducted;

(ii) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

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

Termination of Undertaking

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

Dissemination Agent

The Board may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such agent, with or without appointing a successor dissemination agent.

AUTHORIZATION AND MISCELLANEOUS

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

**BOARD OF EDUCATION OF THE CITY
OF CHICAGO**

By: /s/ John Maiorca
Chief Financial Officer

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APPENDIX A

Audited Financial Statements for Fiscal Year 2004

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INDEPENDENT AUDITORS' REPORT

The Board of Education of the City of Chicago:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS", a body politic and corporate of the State of Illinois) as of and for the year ended June 30, 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.



December 17, 2004

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	<u>\$ 6,973</u>	<u>\$ 6,764</u>	<u>\$ 209</u>	3.1
Current liabilities	\$ 932	\$ 830	\$ 102	12.3
Long-term liabilities	5,250	4,930	320	6.5
Total Liabilities	<u>\$ 6,182</u>	<u>\$ 5,760</u>	<u>\$ 422</u>	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	<u>\$ 791</u>	<u>\$ 1,004</u>	<u>\$ (213)</u>	(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			
	<u>2004</u>	<u>2003</u>	<u>Difference</u>	<u>% Change</u>
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	<u>\$ 962</u>	<u>\$ 931</u>	<u>\$ 31</u>	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	<u>\$ 3,133</u>	<u>\$ 3,000</u>	<u>\$ 133</u>	4.4
Total Revenues	<u>\$ 4,095</u>	<u>\$ 3,931</u>	<u>\$ 164</u>	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	<u>\$ 4,309</u>	<u>\$ 4,087</u>	<u>\$ 222</u>	5.4
Change in Net Assets	<u>\$ (214)</u>	<u>\$ (156)</u>	<u>\$ (58)</u>	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	<u>\$ 3,882,407</u>	<u>\$ 365,687</u>	<u>\$ (173,148)</u>	<u>\$ 4,074,946</u>	<u>\$ 192,539</u>	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)				2004
	2003	Issuances	Retirements	Accreted Interest	
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	<u>11</u>	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>10</u>
Total	\$ 3,175	\$ 766	\$ (484)	\$ 44	\$ 3,501
Capitalized Lease Obligations.....	<u>706</u>	<u>—</u>	<u>(99)</u>	<u>—</u>	<u>607</u>
Total Debt	<u>\$ 3,881</u>	<u>\$ 766</u>	<u>\$ (583)</u>	<u>\$ 44</u>	\$ 4,108
Less: Current Year Portion.....					(153)
Less deferred amounts:					
On Refunding					(68)
For Net Premiums/(Discounts).....					<u>26</u>
Total Long-Term Debt, Net					<u>\$ 3,913</u>

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

<i>(Millions of dollars)</i>	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>2004 Percent of Total</u>	<u>Increase (Decrease) from 2003</u>	<u>Percent Increase (Decrease) from 2003</u>
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	<u>\$ 4,092</u>	<u>\$ 3,874</u>	<u>94.2%</u>	<u>\$ 218</u>	<u>5.6</u>
Other financing sources	<u>253</u>	<u>317</u>	<u>5.8</u>	<u>(64)</u>	<u>(20.2)</u>
Total	<u>\$ 4,345</u>	<u>\$ 4,191</u>	<u>100.0%</u>	<u>\$ 154</u>	<u>3.7</u>

- **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

<i>(Millions of dollars)</i>	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>2004 Percent of Total</u>	<u>Increase (Decrease) from 2003</u>	<u>Percent Increase (Decrease) from 2003</u>
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	<u>7</u>	<u>12</u>	<u>0.2%</u>	<u>(5)</u>	<u>(41.7)%</u>
Total	<u>\$ 4,382</u>	<u>\$ 4,293</u>	<u>100.0%</u>	<u>\$ 89</u>	<u>2.1%</u>

- **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)

	<u>Governmental Activities</u>
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	<u>4,074,946</u>
Total Assets	<u>\$ 6,973,103</u>
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	<u>297,500</u>
Total Liabilities	<u>\$ 6,181,949</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 454,841
Restricted for:	
Debt service	390,882
Specific purposes	43,454
Unrestricted	<u>(98,023)</u>
Total Net Assets	<u>\$ 791,154</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF ACTIVITIES
For the Year Fiscal Ended June 30, 2004
(Thousands of Dollars)

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges For</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
FUNCTIONS/PROGRAMS					
<i>Governmental activities:</i>					
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	<u>\$ 4,309,229</u>	<u>\$ 9,830</u>	<u>\$ 791,309</u>	<u>\$ 161,429</u>	<u>\$ (3,346,661)</u>
 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					<u>\$ 3,133,397</u>
Change in net assets					\$ (213,264)
Net assets — beginning					<u>1,004,418</u>
Net assets — ending					<u>\$ 791,154</u>

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)

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
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	<u>\$ 1,993,723</u>	<u>\$ 703,238</u>	<u>\$ 419,653</u>	<u>\$ 3,116,614</u>
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	<u>\$ 1,686,217</u>	<u>\$ 275,490</u>	<u>\$ 34,638</u>	<u>\$ 1,996,345</u>
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	<u>\$ 307,506</u>	<u>\$ 427,748</u>	<u>\$ 385,015</u>	<u>\$ 1,120,269</u>
Total Liabilities and Equity	<u>\$ 1,993,723</u>	<u>\$ 703,238</u>	<u>\$ 419,653</u>	<u>\$ 3,116,614</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 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	<u>(1,874,924)</u>
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	<u>(113)</u>
	(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	<u>199,557</u>
Net Assets	<u>\$ 791,154</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2004

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

(Thousands of Dollars)

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Fiscal Year Ended June 30, 2004</u>	<u>Total Fiscal Year Ended June 30, 2003</u>
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	<u>\$ 3,721,989</u>	<u>\$ 129,844</u>	<u>\$ 240,365</u>	<u>\$ 4,092,198</u>	<u>\$ 3,874,061</u>
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	<u>\$ 3,758,510</u>	<u>\$ 365,336</u>	<u>\$ 258,170</u>	<u>\$ 4,382,016</u>	<u>\$ 4,293,133</u>
REVENUES LESS THAN EXPENDITURES ...	<u>\$ (36,521)</u>	<u>\$ (235,492)</u>	<u>\$ (17,805)</u>	<u>\$ (289,818)</u>	<u>\$ (419,072)</u>
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)	<u>\$ 15,071</u>	<u>\$ 272,483</u>	<u>\$ (34,891)</u>	<u>\$ 252,663</u>	<u>\$ 317,438</u>
REVENUES AND OTHER FINANCING SOURCES (USES) LESS THAN EXPENDITURES					
Fund Balances, beginning of period	\$ (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	<u>\$ 307,506</u>	<u>\$ 427,748</u>	<u>\$ 385,015</u>	<u>\$ 1,120,269</u>	<u>\$ 1,157,424</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES**
For the Fiscal Year Ended June 30, 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		<u>(144,747)</u>
		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		<u>(152,245)</u>
Change in Net Assets	\$	<u>(213,264)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES BY OBJECT
OTHER FINANCING SOURCES AND CHANGES IN FUND BALANCES
FINAL APPROPRIATIONS VS ACTUAL — GENERAL OPERATING FUND
For the Fiscal Year Ended June 30, 2004
(Thousands of Dollars)

	<u>Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>Fiscal Year Actual</u>	<u>Variance</u>
REVENUES:					
Property taxes	\$ 1,524,700	\$ —	\$ 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	<u>\$ 270,376</u>	<u>\$ —</u>	<u>\$ 270,376</u>	<u>\$ 307,506</u>	<u>\$ 37,130</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 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*;

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Vacation and Sick Pay

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
		<u>\$ 3.142</u>	<u>\$ 3.562</u>

- 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):

	<u>Fund Financial Statements</u>	<u>Government Wide- Financial Statements</u>
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
	<u>\$ 1,481,448</u>	<u>\$ 1,495,174</u>
Total State Aid		

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.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

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:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Maturities Less Than 1 Year</u>	<u>Category 3</u>
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	—
	<u>\$ 1,572,340</u>	<u>\$ 1,572,340</u>	<u>\$651</u>

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	<u>15,459</u>	<u>15,459</u>
Total Receivables	\$ 1,350,776	\$ 1,350,776
Less: Allowance for uncollectibles	<u>(62,304)</u>	<u>(62,304)</u>
Total Receivables, net	<u>\$ 1,288,472</u>	<u>\$ 1,288,472</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 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	<u>199,557</u>
Total Deferred Revenue	<u>\$ 1,041,227</u>

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

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	<u>\$ 144,747</u>

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	<u>\$ 149,239</u>
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	<u>\$ (207,889)</u>
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	<u>\$ 58,650</u>

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:

<u>Sub-series</u>	<u>Par Amount</u>	<u>Rate Reset Period</u>	<u>Broker-Dealer(s)</u>
Series 2003D-1.....	\$ 50,025,000	7-day	Goldman Sachs & Co. Lehman Brothers
Series 2003D-2.....	65,000,000	35-day	Lehman Brothers 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.....	<u>\$ 257,925,000</u>		

NOTE 8. LONG-TERM DEBT (continued)

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:

<u>Sub-series</u>	<u>Par Amount</u>	<u>Rate Reset Period</u>
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	<u>\$ 298,075,000</u>	

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 reacquisition 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	<u>\$ 3,002,324</u>	<u>\$ 765,995</u>	<u>\$ (484,132)</u>	<u>\$ 3,284,187</u>	<u>\$ 216,488</u>	<u>\$ 3,500,675</u>
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)						<u>\$ 3,436,944</u>

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	<u>\$ (22,401)</u>

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):

<u>Description</u>	<u>Amount Defeased</u>	<u>Amount Outstanding</u>
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):

<u>Fiscal Year(s)</u>	<u>Fixed Rate Bonds</u>		<u>Variable Rate Bonds</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest*</u>	<u>Interest Rate Swaps, Net**</u>	
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: $(3.782\% - 1.05\%) \times$ Outstanding Principal
 Series 2003D computed: $(3.771\% - 0.95813\%) \times$ Outstanding Principal
 Series 2004B computed: $(3.5439\% - 0.95813\% + 0.999\%) \times$ Outstanding Principal

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

<u>Series</u>	<u>Accreted Interest June 30, 2003</u>	<u>Increase</u>	<u>Accreted Interest June 30, 2004</u>	<u>Total Accretable Interest</u>	<u>Remaining Accretable Interest</u>
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
	<u>\$ 173,129</u>	<u>\$ 43,359</u>	<u>\$ 216,488</u>	<u>\$ 1,487,528</u>	<u>\$ 1,271,040</u>

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

NOTE 9. CAPITALIZED LEASE OBLIGATIONS

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

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

NOTE 9. CAPITALIZED LEASE OBLIGATIONS (continued)

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

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

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

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

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

NOTE 10. DERIVATIVES INSTRUMENTS (continued)

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

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

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities increase to more than the BMA rate received through March 1, 2004. After March 1, 2004, in addition to the basis risk between BMA and the auction rate securities, the swaps expose CPS to further basis risk should the relationship between LIBOR and BMA converge. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.782% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 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

NOTE 10. DERIVATIVES INSTRUMENTS (continued)

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	<u>\$ 185,350,000</u>			<u>\$ 2,131,356</u>

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

NOTE 10. DERIVATIVES INSTRUMENTS (continued)

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:

<u>LIBOR</u>	<u>Percentage of LIBOR</u>
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):

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

NOTE 12. PENSION BENEFITS

Pension benefits for certified teachers and administrators are provided under a defined benefit single employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund"). There are no assets of the CPS included in the Pension Fund. Copies of the Pension

Fund Annual Report are available by contacting the Public School Teachers' Pension & Retirement Fund of Chicago, 55 West Wacker Drive, Chicago, Illinois 60601.

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	<u>13,208</u>
Sub-total	\$ 78,253
Additional contribution from legal settlement	<u>7,000</u>
Total contributions	<u>\$ 85,253</u>

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):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
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	<u>(44,053)</u>	<u>(36,911)</u>	<u>(30,865)</u>
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	<u>n/a</u>	<u>40,000</u>	<u>n/a</u>
Increase in NPO	\$ 145,245	\$ 145,086	\$ 122,802
Add NPO, beginning of year	<u>894,753</u>	<u>749,667</u>	<u>626,865</u>
NPO, end of year	<u>\$ 1,039,998</u>	<u>\$ 894,753</u>	<u>\$ 749,667</u>

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.

NOTE 12. PENSION BENEFITS (continued)

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):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Actuarial value of assets	\$ 10,494,755	\$ 10,619,061	\$ 10,387,569
Less: Actuarial Accrued Liability (AAL)	<u>(11,411,528)</u>	<u>(11,025,482)</u>	<u>(10,392,705)</u>
AAL unfunded liability (surplus)	<u>\$ 916,773</u>	<u>\$ 406,421</u>	<u>\$ 5,136</u>
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.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
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:

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal and Sinking Fund Installments</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 328,920</u>	<u>\$ 53,159</u>	<u>\$ 382,079</u>

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):

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

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:

<u>Purpose</u>	<u>Restricted Amount</u>
Restricted Donations	\$ 1,439
Specific Purposes	<u>42,015</u>
Total	<u>\$ 43,454</u>

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,

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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.

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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.

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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:

<u>Series</u>	<u>Par Amount</u>	<u>Maturity Date</u>
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	<u>44,730,000</u>	March 1, 2015
Total	<u>\$ 222,080,000</u>	

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 FOR THE SERIES 2005A BONDS

The following is a summary of certain provisions of the Indenture for the Series 2005A 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 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 as authorized by the Indenture.

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

“*Authorized Denominations*” means \$5,000 or any integral multiple thereof.

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

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

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

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

“*Bond Insurer*” means Ambac Assurance Corporation, the issuer of the Bond Insurance Policy.

“*Bond Payment Account*” means the Bond Payment Account established in the Indenture.

“*Bond Resolution*” means Resolution No. 05-0525-RS4, adopted by the Board on May 25, 2005, authorizing the issuance of the Bonds.

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

“*Bonds*” means the \$193,585,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005A, of the Board, being issued under the Indenture and any Bonds issued hereunder in substitution or replacement therefor.

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

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

“*Costs of Issuance Account*” means the Costs of Issuance Account established in the Indenture.

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

“*County Clerks*” means, collectively, the County Clerks of The Counties of Cook and DuPage, Illinois.

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

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

“*Debt Service Fund*” means the Debt Service Fund established in the Indenture.

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

“*Defeasance Obligations*” means (i) Defeasance Government Obligations and (ii) Pre-refunded Municipal Obligations.

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

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

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

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

“*Event of Default*” means any event so designated and specified in the Indenture.

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

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

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

“*Indenture*” means the Trust Indenture, dated as of June 1, 2005, by and between the Board and the Trustee, as from time to time amended and supplemented.

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

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

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

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

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

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

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

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

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

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

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract.

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

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

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

(ii) Bonds (or portions of Bonds) for the payment of which moneys and/or Defeasance Obligations, equal to the principal amount thereof, with interest to the date of maturity, are held in trust under the Indenture and set aside for such payment (whether at or prior to the maturity date);

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

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

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

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

“*Pledged State Aid Revenues*” means State Aid Revenues not in excess of amounts available under the 1998 Authorization and the 2001 Authorization in amounts each year as shall provide for the payment of the Bonds and the provision of not less than an additional .25 times such amounts in such years, and pledged under the Indenture as security for the Bonds.

“*Pledged State Aid Revenues Account*” means the account of that name in the Debt Service Fund.

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

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

“*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.

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

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

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

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

“*Series 2001A Refunding Escrow Agent*” means Seaway National Bank of Chicago, Chicago, Illinois and any successor or successors appointed under the Series 2001A Refunding Escrow Agreement as therein provided.

“*Series 2001C Refunding Escrow Agent*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Series 2001C Refunding Escrow Agreement as therein provided.

“*Series 2001A Refunding Escrow Agreement*” means the Series 2001A Refunding Escrow Agreement dated as of June 1, 2005, between the Board and the Series 2001A Refunding Escrow Agent as from time to time amended.

“*Series 2001C Refunding Escrow Agreement*” means the Series 2001C Refunding Escrow Agreement dated as of June 1, 2005, between the Board and the Series 2001C Refunding Escrow Agent.

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

“*State*” means the State of Illinois.

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

“*Supplemental Indenture*” means any Supplemental Indenture between the Board and the Trustee authorized pursuant to the Indenture.

“*Swap Agreement*” means any agreement between the Board and a counterparty, filed with the Trustee, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis different 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.

“*Swap Provider*” means any counterparty to a Swap Agreement.

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

“*Trustee*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided.

“*Trust Estate*” means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

“*2001 Authorization*” means Resolution No. 01-0926-RS12 adopted by the Board on September 26, 2001, authorizing the issuance of alternate bonds pursuant to the Act.

“*Year*” or “*year*” means a calendar year.

Pledge of Trust Estate

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

- (a) The Pledged State Aid Revenues and the Pledged Taxes; provided that the pledge of State Aid Revenues to the Bonds is on a parity with the pledge of such revenues to outstanding alternate bonds of the Board payable from State Aid Revenues and issued pursuant to the 1998 Authorization and the 2001 Authorization;
- (b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture; and
- (c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge of the Indenture shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Board, irrespective of whether such parties have notice of the lien and pledge.

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 to the extent required by law be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time

as an audit of the Board shows that the Bonds have been paid from the Pledged State Aid Revenues for a complete fiscal year of the Board.

Additional Bonds Payable From Pledged State Aid Revenues

The Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged 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 except in accordance with the provisions of the Indenture. The Board reserves the right to issue Additional Bonds payable from all or any portion of the State Aid Revenues available under the 1998 Authorization or the 2001 Authorization or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from State Aid Revenues available under the 1998 Authorization or the 2001 Authorization which are subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 1998 Authorization or the 2001 Authorization that are available to the Board in each year in excess of those required to be deposited in the Alternate Revenues Account during such year.

Provisions Regarding Payment of Bonds

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

Provisions Regarding Transfer And Exchange Of Bonds

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

the principal office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney, any Bond may, at the option of the Owner and upon payment of any charges sufficient to reimburse the Trustee for any tax, fee or other governmental charge required to be paid, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denominations.

Establishment and Application of Costs of Issuance Account

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

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

Investment of Funds

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

Valuation and Sale of Investments

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

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

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

Swap Agreements

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

The Board and its officers will comply with all present and future applicable laws, including the provisions of Article 18 of the School Code, in order to assure that the Pledged 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 shall provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Official Statement under the heading "SECURITY FOR THE SERIES 2005A BONDS – Pledged Taxes," the Board shall direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement shall be filed with (i) the County Clerks, in a timely manner to effect such abatement; and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

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

Indebtedness and Liens

The Board will not issue any bonds or other evidences of indebtedness, other than the Bonds and Additional Bonds, which are secured by a pledge of or lien on the Pledged 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 will not, except as (i) provided in the Indenture with respect to future parity pledges, and (ii) provided in the Indenture with respect to future subordinate claims, 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.

Accounts and Reports

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Pledged 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 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.

Tax Covenants

The Board will not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof.

The Board will not permit any of the proceeds of the Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Board will not permit any of the proceeds of the Bonds or other moneys to be invested in any manner that would cause any Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Board will comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

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 of any Bond when and as the same becomes due and payable;
- (3) If a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action within the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or
- (4) If the Board files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

Proceedings Brought By Trustee

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

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

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

The Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or for the exercise of any trust or power conferred upon the Trustee, provided that the Trustee will have the right to decline to follow any such direction if the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Application of Trust Estate and Other Moneys on Default

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

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

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

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

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

(3) to the payment of Swap Payments.

If and whenever all overdue installments of principal of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners

will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Restrictions on Bondholders' Actions

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

No Remedy Exclusive

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

Rights and Remedies of 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, acting alone, shall (i) have the right to direct all remedies granted under the Indenture with respect to the Bonds upon the occurrence and continuance of an Event of Default, (ii) shall be recognized as the registered owner of each Bond for the purposes of exercising all such rights and privileges available to the Owners of the Bonds, and (iii) shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Owner of a Bond.

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 of any of the Bonds when due. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

Provisions Relating To Trustee

Resignation and Removal of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Bonds and the other Fiduciaries, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will take effect immediately on the acceptance of such appointment by such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee has not been appointed and accepted such appointment within a period of 90 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

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

Appointment of Successor Trustee

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

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

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

customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners

The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures for any one or more of the following purposes:

- (1) To impose additional covenants or agreements to be observed by the Board;
- (2) To impose other limitations or restrictions upon the Board;
- (3) To surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (4) To confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;
- (5) To make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds;
- (6) To cure any ambiguity, omission or defect in the Indenture;
- (7) To provide for the appointment of a successor securities depository;
- (8) To provide for the appointment of any successor Fiduciary; and
- (9) To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

Any Supplemental Indenture not effective in accordance with the foregoing provisions will take effect only if permitted and approved and in the manner described below under the heading “AMENDMENTS – Consent of Owners.”

Amendments

General. Except for Supplemental Indentures not requiring consent of the Owners as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to (i) consent to and approve the execution by the Board and the Trustee of such other Supplemental Indenture or Indentures as may be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any Supplemental Indenture; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on any Bond, without the consent of the Owner of such Bond, (b) 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, (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Owner to the extent otherwise afforded under the Code and Regulations.

Notwithstanding the foregoing, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the Owner of the Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

Consent of Owners. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereof whether or not such subsequent Owner has notice thereof, provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and

accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

Defeasance

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee, the principal thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee will thereupon be discharged and satisfied.

Bonds or interest installments for the payment of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity 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 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) either moneys in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which, in the opinion of a nationally recognized firm of independent public accountants, when due will provide moneys which will be sufficient to pay when due the principal and interest due and to become due on said Bonds on and prior to each specified maturity date thereof, and (c) 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 date upon which moneys are to be available for the payment of the principal of said Bonds.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal of and interest on said Bonds as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any manner or other Defeasance Obligations substituted therefor (any such direction to sell, redeem, invest, reinvest, remove or substitute to be referred to as a "Subsequent Action") unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an opinion of counsel for the Board to the effect that such Subsequent Action has been duly authorized by all

necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Bonds after the taking of the Subsequent Action will remain sufficient to pay, without any further reinvestment thereof, the principal 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.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE FOR THE SERIES 2005B BONDS

The following is a summary of certain provisions of the Indenture for the Series 2005B 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 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 PPRT Revenues with the Bonds as authorized by the Indenture.

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

“*Authorized Denominations*” means \$5,000 or any integral multiple thereof.

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

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

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

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

“*Bond Insurer*” means Ambac Assurance Corporation, the issuer of the Bond Insurance Policy.

“*Bond Payment Account*” means the Bond Payment Account established in the Indenture.

“*Bond Resolution*” means Resolution No. 05-0525-RS4, adopted by the Board on May 25, 2005, authorizing the issuance of the Bonds.

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

“*Bonds*” means the \$52,595,000, aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005B, of the Board, being issued under the Indenture and any Bonds issued hereunder in substitution or replacement therefor.

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

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

“*Costs of Issuance Account*” means the Costs of Issuance Account established in the Indenture.

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

“*County Clerks*” means, collectively, the County Clerks of The Counties of Cook and DuPage, Illinois.

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

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

“*Debt Service Fund*” means the Debt Service Fund established in the Indenture.

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

“*Defeasance Obligations*” means (i) Defeasance Government Obligations and (ii) Pre-refunded Municipal Obligations.

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

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

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

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

“*Escrow Agreement*” means the Third Restated Master Alternate Bonds Escrow Agreement, dated as of June 1, 2005, between the Board and the Escrow Agent, providing for the segregation and distribution of the Personal Property Replacement Tax Revenues, as from time to time hereafter supplemented and amended as provided therein.

“*Event of Default*” means any event so designated and specified in the Indenture.

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

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

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

“*Indenture*” means the Trust Indenture, dated as of June 1, 2005, by and between the Board and the Trustee, as from time to time amended and supplemented.

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

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

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

- (i) Government Obligations;
- (ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Services Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - U.S. Department of Housing & Urban Development (PHA’s)
 - Federal Housing Administration;
- (iii) Senior debt obligations which at the time of purchase are rated “AAA” by Standard & Poor’s Ratings Services (“S&P”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) issued by Fannie Mae or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government agencies;
- (iv) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (v) Commercial paper which is rated at the time of purchase no less than “A-1” or above by S&P and “P-1” by Moody’s and which matures not more than 180 days after the date of purchase;
- (vi) Investments in a money market fund which at the time of purchase is rated “AAAm” or “AAAm-G” or better by S&P, including those of the Trustee;
- (vii) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the Regulations issued thereunder. The government securities that are the subject of such repurchase agreements, unless registered or inscribed in the name of the Board, shall be purchased through banks or trust companies authorized to do business in the State of Illinois;
- (viii) Pre-refunded Municipal Obligations; and
- (ix) any Forward Supply Contract.

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

- (i) Any Bonds canceled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption

shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

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

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

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

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

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

“*Pledged PPRT Revenues*” means Personal Property Replacement Tax Revenues received or to be received by the Board in any Year remaining after any required allocation thereof to provide for the payment of (i) the Statutory Claims and (ii) the Series 1996 Bonds and the Series 1997 Bonds, in amounts each year as shall provide for the payment of the Bonds and the provision of not less than an additional .25 times such amounts in such years, and pledged under the Indenture as security for the Bonds.

“*Pledged PPRT Revenues Account*” means the account of that name in the Debt Service Fund.

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

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

“*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.

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

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

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

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

“*Refunding Escrow Agreement*” means the Series 1997 Refunding Escrow Agreement dated as of June 1, 2005, between the Board and the Refunding Escrow Agent as from time to time amended.

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

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

“*Series 1996 Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996, of the Board.

“*Series 1997 Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board.

“*Series 1997A Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A, of the Board.

“*Series 1998 Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998, of the Board.

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

“*Series 1999A Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A, of the Board.

“*Series 2004A Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A, of the Board.

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

“*State*” means the State of Illinois.

“*Statutory Claims*” mean those claims, currently for pension or retirement obligations previously levied and collected from extensions of taxes against personal property, that are required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of the State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future.

“*Supplemental Indenture*” means any Supplemental Indenture between the Board and the Trustee authorized pursuant to the Indenture.

“*Swap Agreement*” means any agreement between the Board and a counterparty, filed with the Trustee, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis different 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.

“*Swap Provider*” means any counterparty to a Swap Agreement.

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

“*Trustee*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided.

“*Trust Estate*” means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

“*Year*” or “*year*” means a calendar year.

Pledge of Trust Estate

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board in the Indenture

pledges and grants a lien upon the following Trust Estate to the Trustee, for the benefit of the Owners, the Bond Insurer and any Swap Provider, to the extent provided in the Indenture:

- (a) The Pledged PPRT Revenues and the Pledged Taxes; provided that the pledge of Personal Property Replacement Tax Revenues to the Bonds is on a parity with the pledge of such revenues to the payment of the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds and the Series 2004A Bonds;
- (b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture; and
- (c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

Pursuant to Section 13 of the Local Government Debt Reform Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge of the Indenture shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Board, irrespective of whether such parties have notice of the lien and pledge.

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 PPRT Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will to the extent required by law be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Bonds have been paid from the Pledged PPRT Revenues for a complete fiscal year of the Board.

Additional Bonds Payable From Pledged PPRT Revenues

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

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Personal Property Replacement Tax Revenues which are subordinate to the Bonds. Such subordinate obligations will be paid from Personal Property Replacement Tax Revenues

available to the Board in each year in excess of those required to be deposited in the Pledged PPRT Revenues Account during such year.

Provisions Regarding Payment of Bonds

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

Provisions Regarding Transfer And Exchange Of Bonds

Subject to the operation of the global book-entry only system described in the body of this Official Statement, the following provisions apply to the transfer and exchange of Bonds under the Indenture. Each Bond will be transferable only upon the registration books of the Board, which will be kept for such purpose by the Registrar, by the Owner in person or by its attorney duly authorized in writing, upon surrender thereof with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney. Upon the transfer of any such Bond, the Board will issue in the name of the transferee a new Bond or Bonds in Authorized Denominations of the same aggregate principal amount. Upon surrender at the principal office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney, any Bond may, at the option of the Owner and upon payment of any charges sufficient to reimburse the Trustee for any tax, fee or other governmental charge required to be paid, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denominations. The Registrar and the Trustee will not be required to make any registration, transfer or exchange of any Bond during the period after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving of notice of such redemption.

Establishment and Application of Costs of Issuance Account

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

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

Investment of Funds

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

Valuation and Sale of Investments

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

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

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

Swap Agreements

With respect to the Bonds, 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 PPRT Revenues

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

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

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

Covenants Regarding Pledged Taxes

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

that no such modification or amendment shall provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Official Statement under the heading “SECURITY FOR THE SERIES 2005B BONDS – Pledged Taxes,” the Board shall direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement shall be filed with (i) the County Clerks, in a timely manner to effect such abatement; and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

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

Indebtedness and Liens

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

Accounts and Reports

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

Tax Covenants

The Board will not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Bond is subject on the date of original issuance thereof.

The Board will not permit any of the proceeds of the Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Board will not permit any of the proceeds of the Bonds or other moneys to be invested in any manner that would cause any Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Board will comply with

the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Events of Default and Remedies

Events of Default

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

- (1) If a default occurs in the due and punctual payment of interest on any Bond when and as such interest becomes due and payable;
- (2) If a default occurs in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same becomes due and payable, whether at maturity or by call for redemption or otherwise;
- (3) If a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action within the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or
- (4) If the Board files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

Proceedings Brought By Trustee

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

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

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

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

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

Application of Trust Estate and Other Moneys on Default

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

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

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

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

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

(3) to the payment of Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Restrictions on Bondholders' Actions

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

No Remedy Exclusive

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

Rights and Remedies of 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, acting alone, shall (i) have the right to direct all remedies granted under the Indenture with respect to the Bonds upon the occurrence and continuance of an Event of Default, (ii) shall be recognized as the registered owner of each Bond for the purposes of exercising all such rights and privileges available to the Owners of the Bonds, and (iii) shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Owner of a Bond.

Waiver

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

Provisions Relating To Trustee

Resignation and Removal of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Bonds and the other Fiduciaries, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will take effect immediately on the acceptance of such appointment by such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee has not been appointed and accepted such appointment within a period of 90 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

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

Appointment of Successor Trustee

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

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

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

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners

The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures for any one or more of the following purposes:

- (1) To impose additional covenants or agreements to be observed by the Board;
- (2) To impose other limitations or restrictions upon the Board;
- (3) To surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (4) To confirm, as further assurance, any pledge of or lien upon the Pledged PPRT Revenues, the Pledged Taxes or any other moneys, securities or funds;
- (5) To make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds;
- (6) To cure any ambiguity, omission or defect in the Indenture;
- (7) To provide for the appointment of a successor securities depository;
- (8) To provide for the appointment of any successor Fiduciary; and
- (9) To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

Any Supplemental Indenture not effective in accordance with the foregoing provisions will take effect only if permitted and approved and in the manner described below under the heading “AMENDMENTS – Consent of Owners.”

Amendments

General. Except for Supplemental Indentures not requiring consent of the Owners as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding will have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to (i) consent to and approve the execution by the Board and the Trustee of such other Supplemental Indenture or Indentures as may be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any Supplemental Indenture; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, (b) except for the pledge of the Pledged PPRT Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to

or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Owner to the extent otherwise afforded under the Code and Regulations.

Notwithstanding the foregoing, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the Owner of the Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

Consent of Owners. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereof whether or not such subsequent Owner has notice thereof, provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and

(b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

Defeasance

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee will thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date will be deemed to have been paid as described in the preceding paragraph if the Board has delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to mail the required notice of redemption of any Bonds so to be redeemed, (c) either moneys in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which, in the opinion of a nationally recognized firm of independent public accountants, when due will provide moneys which will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal and Redemption Price of and interest on said Bonds as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any

manner or other Defeasance Obligations substituted therefor (any such direction to sell, redeem, invest, reinvest, remove or substitute to be referred to as a “Subsequent Action”) unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an opinion of counsel for the Board to the effect that such Subsequent Action has been duly authorized by all necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Bonds after the taking of the Subsequent Action will remain sufficient to pay, without any further reinvestment thereof, the principal and Redemption Price of and interest on said Bonds at or prior to their maturity in the manner provided in the preceding paragraph; (iii) an Opinion of Bond Counsel to the effect that the Subsequent Action will not adversely affect any exemption from federal income tax of the interest paid on the Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

APPENDIX D

Information Concerning Personal Property Replacement Tax Revenues

Description of Personal Property Replacement Taxes. Through December 31, 1997, the Personal Property Replacement Taxes were comprised of three taxes as described in the following table:

<u>TYPE OF TAX</u>	<u>RATE⁽¹⁾</u>
Additional income tax on corporations	2.5% of net income ⁽²⁾
Additional income tax on partnerships, trusts and Subchapter S corporations	1.5% of net income ⁽²⁾
Tax on invested capital for public utilities providing gas, telecommunications, electric and water services	0.8% of invested capital ⁽³⁾

⁽¹⁾ Beginning on July 1, 1984 certain taxpayers who pay Personal Property Replacement Taxes were allowed to claim a credit of 0.5 percent of the basis of certain qualified property placed in service during that year. On July 1, 1986, the credit was increased to a maximum of 1 percent for businesses whose employment in the State of Illinois (the "State") increases. This credit is scheduled to expire December 31, 2003.

⁽²⁾ Determined in accordance with the Illinois Income Tax Act.

⁽³⁾ Determined in accordance with applicable State taxes on the gross receipts of such public utilities. See "– Recent Changes in Personal Property Replacement Taxes" below for a discussion of recently enacted amendments relating to the tax on invested capital of telecommunications and electric utilities.

The income tax component of the Personal Property Replacement Taxes is paid on an estimated basis with the corporation's regular state income tax quarterly payments. A final return is due after the end of the corporation's taxable year. The tax on invested capital of utilities applied to business entities that sell or provide electric, gas, water or telecommunications services in the State, except for municipal and cooperative corporations. The invested capital tax is paid with estimated payments by the fifteenth day of March, June, September and December, with a final return due by the fifteenth day of March following the tax year.

Recent Changes in Personal Property Replacement Taxes. Effective January 1, 1998, Public Act 90-154 repealed the tax on the invested capital on telecommunications utilities and provides instead for the imposition of an infrastructure maintenance fee upon all telecommunications retailers in the State. This fee imposed is equal to .5% of all gross charges imposed by the retailer for telecommunications, other than wireless telecommunications, originating or received in the State. This fee is to be paid monthly by telecommunications retailers to the State. Public Act 90-154 states its intent that this statewide infrastructure

maintenance fee will be a replacement for the tax currently imposed on the invested capital of telecommunications utilities.

Effective January 1, 1998, Public Act 90-561 repealed the tax on the invested capital of electric utilities (other than electric co-operatives) and provides instead for the imposition of a tax on the distribution of electricity. This tax is imposed on electric utilities on a per kilowatt basis, with the rates varying with the amount of electricity distributed. This tax is to be paid quarterly by electric utilities to the State. In any given year, the total statewide collection of the tax cannot exceed \$145.3 million plus the lesser of CPI and 5%. Public Act 90-561 states its intent that this new tax on the distribution of electricity will be a replacement for the tax currently imposed on invested capital of electric utilities.

The telecommunications infrastructure maintenance fee and the tax on the distribution of electricity described above are each to be collected and allocated to the Board and other taxing districts in accordance with existing allocation formulas for the Personal Property Replacement Taxes. See “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2005B Bonds – Allocation and Payment.”

Future Legislative Action. Set forth above and under “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2005B Bonds” is a description of the existing provisions of the State Revenue Sharing Act relating to the application, collection, allocation, appropriation and payment of the Personal Property Replacement Taxes and of recently enacted amendments relating to the invested capital tax on telecommunications and electric utilities. These provisions could be further amended, modified or repealed by future action of the Illinois General Assembly. Such amendment, modification or repeal could have a material effect on the amount and/or the timing of receipt of the Personal Property Replacement Taxes collected and allocated by the State or on the amount and/or the timing of receipt of the Personal Property Replacement Taxes to be received by the Board and deposited with the Master Escrow Agent. See “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2005B Bonds – Prior Statutory Claims.”

Personal Property Replacement Tax Statistical Tables

The following is the schedule of Personal Property Replacement Taxes allocated by the State (including allocations to the Board) for the calendar years 1999 through June 30, 2004. For a discussion of the prior statutory claim on Personal Property Replacement Taxes, see “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2005B Bonds – Prior Statutory Claims.”

Statewide Replacement Tax Data ⁽¹⁾

<u>Calendar Year</u>	<u>Invested Capital Tax Collections</u>	<u>Business Income Tax Collections (Net of Refunds)</u>	<u>Net Adjustments ⁽²⁾</u>	<u>Total Replacement Tax Allocations to Local Govts.</u>	<u>Board Percent ⁽³⁾</u>
1999	212,548,109	733,006,815	13,810,698	959,365,712	14.0%
2000	210,658,641	846,070,645	7,675,153	1,064,404,439	14.0%
2001	216,949,091	682,900,875	63,832,416	963,682,382	14.0%
2002	173,752,773	568,278,611	27,725,367	769,786,751	14.0%
2003	170,982,512	579,537,177	26,969,877	777,479,567	14.0%
2004 ⁽³⁾	199,650,553	560,963,484	66,078,151	826,692,188	14.0%

⁽¹⁾ Source: Illinois Department of Revenue

⁽²⁾ Consists of adjustments for administrative rules, interest earned on deposits, interfund transfers, timing of collections and payments and related items.

⁽³⁾ Replacement tax collection for January 1, 2004 – October 31, 2004, only.

⁽⁴⁾ Percentage rounded.

Board Replacement Tax Data ⁽¹⁾

<u>Calendar Year</u>	<u>Statutory Claims ⁽¹⁾</u>			<u>Remainder after Allocations for Statutory Claims</u>	<u>Pro-Forma Pledged Revenues ⁽⁴⁾</u>	<u>Fiscal Year Recorded Revenues</u>
	<u>Allocations To Board</u>	<u>Allocations for Prior Debt Service ⁽²⁾</u>	<u>Allocations for Pension Obligations ⁽³⁾</u>			
1999	134,356,610	--	--	134,356,610	134,356,610	137,749,536
2000	149,016,621	--	--	149,016,621	149,016,621	147,657,000
2001	134,915,533	--	--	134,915,533	134,915,533	137,744,000
2002	107,770,145	--	--	107,770,145	107,770,145	114,313,000
2003	109,268,539	--	--	109,268,539	109,268,539	105,959,557
2004	115,736,906	--	--	115,736,906	115,736,906	120,427,424

⁽¹⁾ Source: Board of Education of the City of Chicago.

⁽²⁾ All Board's debt for which there was a replacement tax obligation was retired by the end of 1995.

⁽³⁾ The amount of the Statutory Claim for pension and retirement purposes has varied over the past 10 years, primarily as a result of (a) increases in required employer contributions funded from property taxes as a consequence of increased payroll and employee contributions (1985-1990 and 1994-1995), (b) a temporary suspension of the statutory requirement that property taxes be applied to pension and retirement purposes (1991-1993), and (c) the suspension of the statutory requirement that, property taxes be applied to pension and retirement purposes (1996 and all years thereafter).

⁽⁴⁾ Reflects reductions to pay applicable Statutory Claims. All Statutory Claims with respect to debt service have been paid and, under the Statute Revenue Sharing Act, no future Statutory Claims with respect to debt service will arise or need to be paid.

Following is the schedule of Personal Property Replacement Taxes received by the Board from January 1999 through May 2005.

Monthly Summary of the Total Allocations to the Board of Education ⁽¹⁾

<u>Calendar Year</u>	<u>January</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>July</u>	<u>August</u>	<u>October</u>	<u>December</u>	<u>Total</u>
1999	18,839,603	7,374,663	28,306,409	15,119,232	27,097,102	5,357,190	25,158,521	7,103,890	134,356,610
2000	16,886,066	9,745,046	39,992,847	14,519,931	28,893,667	5,385,783	25,132,569	8,503,330	149,059,239
2001	19,256,949	9,853,297	25,603,017	18,352,614	25,636,258	3,148,346	24,440,723	8,642,922	134,934,126
2002	16,842,147	6,478,868	25,630,253	12,181,929	16,948,258	2,701,807	19,106,650	7,911,061	107,800,973
2003	14,730,281	6,208,549	25,757,619	12,117,348	17,426,241	1,749,411	16,757,860	14,132,368	108,879,677
2004	19,906,464	8,669,066	26,475,210	13,494,987	19,241,877	8,379,867	19,602,544	16,676,184	132,446,209
2005	21,166,525	11,653,412	33,977,017	18,816,309					119,697,873

⁽¹⁾ Source: Board of Education of the City of Chicago

APPENDIX E

Form of Opinions of Co-Bond Counsel

June 27, 2005

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of \$193,585,000, principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005A (the “Bonds”); of the Board of Education of the City of Chicago (the “Board”). The Bonds are authorized and issued pursuant to The School Code of the State of Illinois, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 05-0525-RS4, adopted by the Board on May 25, 2005 (the “Bond Resolution”) and a Trust Indenture dated as of June 1, 2005 (the “Indenture”) by and between the Board and Amalgamated Bank of Chicago, as trustee (the “Trustee”). Terms used herein, which are defined in the Indenture, shall have the meanings set forth in the Indenture unless otherwise defined herein.

The Bonds are issuable in the form of fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. The Bonds delivered on original issuance are dated June 27, 2005. The Bonds mature (without option of prior redemption) on December 1, in each of the following years in the respective principal amount set opposite each such year in the following table, and the Bonds maturing in each such year bear interest from their date payable on December 1, 2005 and semiannually thereafter on June 1 and December 1 in each year, at the respective rate of interest per annum set forth opposite such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2013	\$ 6,095,000	5.00%
2014	6,405,000	5.00
2015	6,720,000	5.25
2016	7,085,000	5.25
2017	7,455,000	5.50
2018	7,860,000	5.50
2019	8,300,000	5.50
2020	8,755,000	5.50
2021	9,240,000	5.50
2022	9,750,000	5.50
2023	10,290,000	5.50
2024	10,855,000	5.50
2025	11,455,000	5.50
2026	12,090,000	5.50
2027	12,760,000	5.50
2028	13,465,000	5.50
2029	14,200,000	5.50
2030	14,990,000	5.50
2031	15,815,000	5.50

The Bonds are issued as “alternate bonds” under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip 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”).

We are of the opinion that:

1. The Board had and has the right and power to adopt the Bond Resolution, to enter into the Indenture and to authorize the Bonds. The Bond Resolution has been duly adopted, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Board, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

3. The Bonds have been duly authorized and issued in accordance with the Bond Resolution and the Indenture, are valid and legally binding general obligations of the Board, are entitled to the benefits and security of the Bond Resolution and the Indenture and are enforceable in accordance with their terms.

4. The full faith and credit of the Board are irrevocably pledged to the punctual payment of the Bonds and the Board has power and is obligated to levy ad valorem taxes upon all the taxable property within the School District for the punctual payment of the Bonds and the interest thereon without limitation as to rate or amount.

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged State Aid Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged State Aid Revenues consist of the State Aid Revenues received by the Board in any year pursuant to Article 18 of the School Code not in excess of the amounts available under the 1998 Authorization and the 2001 Authorization and such pledge is on a parity with the pledge of such State Aid Revenues as security for the payment of other alternate bonds of the Board issued or to be issued pursuant to the 1998 Authorization or the 2001 Authorization. The Pledged Taxes consist of ad valorem property taxes levied pursuant to the Bond Resolution. The Board has taken all necessary action to cause the County Collectors of the Counties of Cook and DuPage to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

6. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not “private activity bonds” within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income.

However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements.

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

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond Resolution and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought.

With respect to the exclusion from gross income for Federal income tax purposes of interest on the Bonds we have relied on the verification report of Grant Thornton LLP, certified public accountants, regarding the computation of the actuarial yield on the Bonds and of certain investments made with the proceeds of the Bonds.

Very truly yours,

June 27, 2005

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of \$52,595,000, principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005B (the “Bonds”); of the Board of Education of the City of Chicago (the “Board”). The Bonds are authorized and issued pursuant to The School Code of the State of Illinois, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 05-0525-RS4 adopted by the Board on May 25, 2005 (the “Bond Resolution”) and a Trust Indenture dated as of June 1, 2005 (the “Indenture”) by and between the Board and Amalgamated Bank of Chicago, as trustee (the “Trustee”). Terms used herein, which are defined in the Indenture, shall have the meanings set forth in the Indenture unless otherwise defined herein.

The Bonds are issuable in the form of fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. The Bonds delivered on original issuance are dated the June 27, 2005. The Bonds bear interest from their date at the rate of five percentum (5.00%) per annum payable on December 1, 2005 and semiannually thereafter on June 1 and December 1 in each year. The Bonds mature on December 1, in each of the following years in the respective principal amount set opposite each such year in the following table:

<u>Year</u>	<u>Principal Amount</u>
2013	\$14,565,000
2014	15,295,000
2021	22,735,000

The Bonds maturing on December 1, 2021 are subject to redemption prior to maturity at the option of the Board, as a whole or in part, on December 1, 2015 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed.

The Bonds are issued as “alternate bonds” under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip 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”).

We are of the opinion that:

1. The Board had and has the right and power to adopt the Bond Resolution, to enter into the Indenture and to authorize the Bonds. The Bond Resolution has been duly adopted, is

presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Board, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

3. The Bonds have been duly authorized and issued in accordance with the Bond Resolution and the Indenture, are valid and legally binding general obligations of the Board, are entitled to the benefits and security of the Bond Resolution and the Indenture and are enforceable in accordance with their terms.

4. The full faith and credit of the Board are irrevocably pledged to the punctual payment of the Bonds and the Board has power and is obligated to levy ad valorem taxes upon all the taxable property within the School District for the punctual payment of the Bonds and the interest thereon without limitation as to rate or amount.

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged PPRT Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged PPRT Revenues consist of the Personal Property Replacement Tax Revenues received by the Board in any year from the Personal Property Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act, subject however to (i) the prior use of Personal Property Replacement Tax Revenues for the payment of certain pension and retirement obligations constituting "Statutory Claims" as defined in the Indenture; and (ii) the prior and priority pledge of such Revenues to the payment of the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 and the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board. In addition, the pledge of the Pledged PPRT Revenues is on a parity with the pledge of Personal Property Replacement Tax Revenues as security for the payment of other outstanding alternate bonds of the Board. The Pledged Taxes consist of ad valorem property taxes levied pursuant to the Bond Resolution. The Board has taken all necessary action to cause the County Collectors of the Counties of Cook and DuPage to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

6. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to

the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements.

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

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond Resolution and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought.

With respect to the exclusion from gross income for Federal income tax purposes of interest on the Bonds we have relied on the verification report of Grant Thornton LLP, certified public accountants, regarding the computation of the actuarial yield on the Bonds and of certain investments made with the proceeds of the Bonds.

Very truly yours,

APPENDIX F

Specimen Municipal Bond Insurance Policy

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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**APPENDIX G
GENERAL OBLIGATION BONDS
TO BE REFUNDED BY THE BONDS**

**BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds
Series 2005
Summary of Bonds Refunded**

Issue	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP
School Reform Board Series 1997	SER	12/1/2013	5.80%	14,885,000	12/1/2007	102	167501RU(1)
School Reform Board Series 1997	SER	12/1/2014	5.80%	15,750,000	12/1/2007	102	167501RV(9)
School Reform Board Series 1997	2027TERM	12/1/2021	5.75%	23,340,000	12/1/2007	102	167501R5(6)
				53,975,000			
BOE Series 2001 A	SER1	12/1/2013	5.25%	1,100,000	12/1/2011	100	167501ZZ(1)
BOE Series 2001 A	SER1	12/1/2014	5.75%	1,160,000	12/1/2011	100	167501A2(1)
BOE Series 2001 A	SER1	12/1/2015	5.75%	1,230,000	12/1/2011	100	167501A3(9)
BOE Series 2001 A	SER1	12/1/2016	5.75%	1,305,000	12/1/2011	100	167501A4(7)
BOE Series 2001 A	SER1	12/1/2017	5.75%	1,380,000	12/1/2011	100	167501A5(4)
BOE Series 2001 A	SER1	12/1/2018	5.38%	1,460,000	12/1/2011	100	167501A6(2)
BOE Series 2001 A	SER1	12/1/2019	5.38%	1,540,000	12/1/2011	100	167501A7(0)
BOE Series 2001 A	SER1	12/1/2020	5.13%	1,625,000	12/1/2011	100	167501A8(8)
BOE Series 2001 A	SER1	12/1/2021	5.13%	1,710,000	12/1/2011	100	167501A9(6)
BOE Series 2001 A	SER1	12/1/2029	5.13%	2,640,000	12/1/2011	100	167501B4(6)
BOE Series 2001 A	2028TERM	12/1/2022	5.50%	1,800,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2023	5.50%	1,905,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2024	5.50%	2,010,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2025	5.50%	2,125,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2026	5.50%	2,245,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2027	5.50%	2,370,000	12/1/2011	100	
BOE Series 2001 A	2028TERM	12/1/2028	5.50%	2,505,000	12/1/2011	100	167501B2(0)
BOE Series 2001 A	2031TERM	12/1/2030	5.00%	2,780,000	12/1/2011	100	
BOE Series 2001 A	2031TERM	12/1/2031	5.00%	2,920,000	12/1/2011	100	167501B3(8)
				35,810,000			
BOE Series 2001 C	SER1	12/1/2013	5.50%	5,575,000	12/1/2011	100	167501E5(0)
BOE Series 2001 C	SER1	12/1/2014	5.50%	5,885,000	12/1/2011	100	167501E6(8)
BOE Series 2001 C	SER1	12/1/2015	5.50%	6,205,000	12/1/2011	100	167501E7(6)
BOE Series 2001 C	SER1	12/1/2016	5.50%	6,550,000	12/1/2011	100	167501E8(4)
BOE Series 2001 C	SER1	12/1/2017	5.50%	6,910,000	12/1/2011	100	167501E9(2)
BOE Series 2001 C	SER1	12/1/2018	5.50%	7,285,000	12/1/2011	100	167501F2(6)
BOE Series 2001 C	SER1	12/1/2019	5.00%	7,690,000	12/1/2011	100	167501F3(4)
BOE Series 2001 C	SER1	12/1/2020	5.00%	8,070,000	12/1/2011	100	167501F4(2)
BOE Series 2001 C	SER1	12/1/2021	5.00%	8,475,000	12/1/2011	100	167501F5(9)
BOE Series 2001 C	2026TERM	12/1/2022	5.00%	8,900,000	12/1/2011	100	
BOE Series 2001 C	2026TERM	12/1/2023	5.00%	9,345,000	12/1/2011	100	
BOE Series 2001 C	2026TERM	12/1/2024	5.00%	9,810,000	12/1/2011	100	
BOE Series 2001 C	2026TERM	12/1/2025	5.00%	10,300,000	12/1/2011	100	
BOE Series 2001 C	2026TERM	12/1/2026	5.00%	10,815,000	12/1/2011	100	167501F6(7)
BOE Series 2001 C	2031TERM	12/1/2027	5.00%	11,360,000	12/1/2011	100	
BOE Series 2001 C	2031TERM	12/1/2028	5.00%	11,925,000	12/1/2011	100	
BOE Series 2001 C	2031TERM	12/1/2029	5.00%	12,520,000	12/1/2011	100	
BOE Series 2001 C	2031TERM	12/1/2030	5.00%	13,150,000	12/1/2011	100	
BOE Series 2001 C	2031TERM	12/1/2031	5.00%	13,805,000	12/1/2011	100	167501F7(5)
				174,575,000			
Grand Total				\$ 264,360,000			

NEIGHBORHOODS *Alive!*



BUILDING CHICAGO TOGETHER

RICHARD M. DALEY, MAYOR