

Subject to compliance by the Board with certain covenants, in the opinion of Chapman and Cutler, Chicago, Illinois, and Albert, Whitehead & McGaugh, P.C., Chicago, Illinois, Co-Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, as more fully described under the captions "TAX EXEMPTION" and "ORIGINAL ISSUE DISCOUNT" herein. Interest on the Bonds is not exempt from present Illinois income taxes.

\$328,714,364.25

**CHICAGO SCHOOL REFORM BOARD OF TRUSTEES
OF THE BOARD OF EDUCATION OF THE
CITY OF CHICAGO, ILLINOIS**
Unlimited Tax General Obligation Bonds
(Dedicated Tax Revenues), Series 1998B-1



Dated: Date of Issuance

Due: December 1, as shown on the inside cover

The Bonds will be issued as fully registered Capital Appreciation Bonds and will be registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. The Bonds will be issued in denominations representing \$5,000 Compound Accreted Value, or any integral multiple thereof, at maturity. Purchases of Bonds will be made in book-entry form through DTC participants only in authorized denominations. No physical delivery of Bonds will be made to purchasers. See "GLOBAL BOOK-ENTRY FORM OF OWNERSHIP."

Compound Accreted Value of the Bonds will be paid by Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, bond registrar and paying agent for the Bonds, to DTC, which in turn will remit such payments to its participants for subsequent distribution to the beneficial owners of the Bonds.

The Bonds will be payable from the Pledged Revenues described herein, consisting of the amounts paid to the Board by the City of Chicago (the "City") pursuant to an Intergovernmental Agreement between the City and the Board (the "Intergovernmental Agreement Revenues", as more fully described herein) and the Pledged Replacement Tax Revenues (as described herein). To the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board without limitation as to rate or amount against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City (the "Pledged Taxes"). The Bonds are also payable from all Funds, Accounts and Sub-Accounts established pursuant to the Indenture as security for the Bonds. The Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. See "SECURITY FOR THE BONDS."

The proceeds from the sale of the Bonds will be used to (i) to finance the Board's Capital Improvement Program (as described herein) and (ii) pay costs of issuance of the Bonds. See "CAPITAL IMPROVEMENT PROGRAM" and "APPLICATION OF PROCEEDS."

Payment of the Compound Accreted Value when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company. See "BOND INSURANCE."

FGIC Financial Guaranty Insurance
Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. government agency.

The Bonds will mature as shown on the inside cover and will accrue interest at rates compounded semi-annually, on each June 1 and December 1, commencing December 1, 1998, to produce the approximate yields to maturity as shown on the inside cover. The Bonds are not subject to optional or mandatory redemption prior to maturity.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of separate approving legal opinions of Chapman and Cutler, Chicago, Illinois, and Albert, Whitehead & McGaugh, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Marilyn F. Johnson, and by Katten Muchin & Zavis, Chicago, Illinois; and for the Underwriters by their Co-counsel, Mayer, Brown & Platt, Chicago, Illinois, and Burke, Burns & Pinelli, Ltd., Chicago, Illinois. Delivery of the Bonds is expected to be made to DTC in New York, New York, on or about October 28, 1998.

Mesirow Financial, Inc.

Dain Rauscher, Inc. Goldman, Sachs & Co. SBK-Brooks Investment Corp.

Artemis Capital Group, Inc.

Robert W. Baird & Co. Incorporated

BancAmerica Securities, Inc.

M.R. Beal & Company

Berean Capital, Inc.

William Blair & Company

First Albany Corporation

Griffin, Kubik, Stephens & Thompson, Inc.

Merrill Lynch & Co.

Ramirez & Co., Inc.

MATURITIES, AMOUNTS AND APPROXIMATE YIELDS

<u>Maturity December 1</u>	<u>Original Principal Amount</u>	<u>Original Principal Amount Per \$5,000 at Maturity</u>	<u>Total Par Value at Maturity</u>	<u>Approximate Yield to Maturity</u>
2009	\$17,825,043.20	\$3,035.60	\$29,360,000	4.550%
2010	16,843,470.35	2,867.95	29,365,000	4.650
2011	7,650,464.70	2,704.30	14,145,000	4.750
2012	10,383,600.00	2,545.00	20,400,000	4.850
2013	9,753,036.00	2,390.45	20,400,000	4.950
2014	9,215,088.00	2,258.60	20,400,000	5.000
2015	8,698,152.00	2,131.90	20,400,000	5.050
2016	8,202,228.00	2,010.35	20,400,000	5.100
2017	7,763,220.00	1,902.75	20,400,000	5.125
2018	7,344,204.00	1,800.05	20,400,000	5.150
2019	14,189,854.00	1,693.30	41,900,000	5.200
2020	20,685,953.00	1,608.55	64,300,000	5.200
2021	19,606,999.00	1,524.65	64,300,000	5.210
2022	18,623,852.00	1,448.20	64,300,000	5.210
2023	16,232,080.00	1,375.60	59,000,000	5.210
2024	15,378,940.00	1,303.30	59,000,000	5.220
2025	14,606,630.00	1,237.85	59,000,000	5.220
2026	13,872,670.00	1,175.65	59,000,000	5.220
2027	13,175,880.00	1,116.60	59,000,000	5.220
2028	21,211,000.00	1,060.55	100,000,000	5.220
2029	20,145,000.00	1,007.25	100,000,000	5.220
2030	19,134,000.00	956.70	100,000,000	5.220
2031	18,173,000.00	908.65	100,000,000	5.220

(Price of all Bonds: 100%)

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson, or other person has been authorized by the Board or the Underwriters to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement is neither an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the Board and include information from other sources that the Board believes to be reliable. Such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date hereof. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Bonds.

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Indenture. Copies of the Indenture, the Intergovernmental Agreement and the Escrow Agreement are available for inspection at the offices of the Board and the Trustee. All statements, information and statistics herein are believed to be correct but are not guaranteed by the Underwriters or the Board, and all expressions of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact. 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 PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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

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**CHICAGO SCHOOL REFORM BOARD OF TRUSTEES
OF THE BOARD OF EDUCATION OF
THE CITY OF CHICAGO, ILLINOIS**

TRUSTEES

Gery J. Chico
President

Norman R. Bobins
Dr. Tariq Butt
Avis LaVelle
Gene R. Saffold

MANAGEMENT

Paul G. Vallas
Chief Executive Officer

Cozette E. Buckney
Chief Education Officer

Timothy W. Martin
Chief Operating Officer

Kenneth C. Gotsch
Chief Fiscal Officer

Diane E. Minor
Chief Purchasing Officer

Marilyn F. Johnson
General Counsel

Chapman and Cutler
Albert, Whitehead & McGaugh, P.C.
Co-Bond Counsel

Austin Meade Financial Ltd.
A. C. Advisory, Inc.
Financial Advisors

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\$328,714,364.25
CHICAGO SCHOOL REFORM BOARD OF TRUSTEES
OF THE BOARD OF EDUCATION OF THE
CITY OF CHICAGO, ILLINOIS
Unlimited Tax General Obligation Bonds
(Dedicated Tax Revenues), Series 1998B-1

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois (the "Board") of its \$328,714,364.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998B-1 (the "Bonds"). The Board constitutes the school district for the City of Chicago (the "City") and the boundaries of this school district (the "School District") are coterminous with those of the City.

The Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds will be issued by the Board pursuant to the provisions of the School Code of the State of Illinois, as amended (the "School Code"), the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), a bond resolution adopted by the Board on October 7, 1998, and a Trust Indenture, dated as of September 1, 1998 (the "Indenture"), between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the "Trustee"). The Bonds will be secured by and are payable (i) from the Pledged Revenues (as defined below), (ii) to the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board against all of the taxable property in the School District, without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "Pledged Taxes") and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the Indenture.

The Pledged Revenues consist of the "Intergovernmental Agreement Revenues" and the "Pledged Replacement Tax Revenues." The Intergovernmental Agreement Revenues are the amounts to be paid to the Board by the City pursuant to an Intergovernmental Agreement, dated as of October 1, 1997 (the "Intergovernmental Agreement"), between the Board and the City, which amounts are to be derived from the proceeds of *ad valorem* taxes levied in specified years by the City against all of the taxable property in the City. The Pledged Replacement Tax Revenues are 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 (the "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 Board's \$350,000,000 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 (the "Series 1996 Bonds") and of its \$500,000,000 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the "Series 1997 Bonds").

The Bonds are being issued on a parity basis, as to the claim on the Pledged Revenues, with the Board's outstanding \$499,995,204.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the "Series 1997A Bonds") and its \$14,000,000 Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the "Series 1998 Bonds"). The lien of the Bonds, the Series 1997A Bonds and the Series 1998 Bonds on the Pledged Replacement Tax Revenues is junior in priority to that of the Series 1996 Bonds and the Series 1997 Bonds.

The scheduled payment of debt service on the Bonds when due will be guaranteed under a municipal bond new issue insurance policy (the "Policy") to be issued by Financial Guaranty Insurance Company ("Financial Guaranty") upon delivery of the Bonds. For additional information, see "BOND INSURANCE."

The Board is issuing the Bonds to provide funds for the continued implementation of its Capital Improvement Program for the Chicago Public Schools. For additional information, see "CAPITAL IMPROVEMENT PROGRAM."

Prior Alternate Bonds

The Bonds are the fifth series of general obligation bonds, known as "alternate bonds," issued by the Board pursuant to the Debt Reform Act to finance its Capital Improvement Program. Previously, the Board has issued the Series 1996 Bonds, the Series 1997 Bonds, the Series 1997A Bonds and the Series 1998 Bonds. The Series 1996 Bonds and the Series 1997 Bonds were issued pursuant to an initial \$1.15 billion bond authorization (the "1996 Authorization") and are collectively referred to as the "1996 Authorization Bonds." The Series 1997A Bonds and the Series 1998 Bonds were issued pursuant to a subsequent \$1.5 billion bond authorization (the "1997 Authorization") and are collectively referred to as the "1997 Authorization Bonds." The Series 1998 Bonds were issued as "qualified zone academy bonds" under recently enacted amendments to the Internal Revenue Code of 1986, as amended (the "Code"). The Series 1996 Bonds, the Series 1997 Bonds, the Series 1997A Bonds and the Series 1998 Bonds are collectively referred to as the "Prior Alternate Bonds." For additional information, see "SECURITY FOR THE BONDS" and "CAPITAL IMPROVEMENT PROGRAM."

THE BONDS

General

All of the Bonds will be Capital Appreciation Bonds, dated as of the date of their initial issuance and delivery and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Bonds will be issued in fully registered form in the denominations representing \$5,000 Compound Accreted Value at maturity, or any integral multiple thereof.

Compound Accreted Value represents a repayment of the original principal amount of a Capital Appreciation Bond and the payment of an investment return accrued over the life of such Capital Appreciation Bond at a semi-annual compounding rate which is necessary to produce the approximate yield to maturity for such Bond from the date of such Bond. Interest on the Bonds will be accrued from their date of issuance and delivery and will be compounded semiannually, on June 1 and December 1 of each year, commencing December 1, 1998, at rates per annum to produce the approximate yields to maturity set forth on the inside cover page hereof. The Table of Compound Accreted Value attached as APPENDIX G hereto sets forth a schedule of Compound Accreted Values based on these yields to maturity.

The Trustee will serve as bond registrar and paying agent for the Bonds. Compound Accreted Value of the Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of the Trustee.

The Bonds will be initially 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 herein under the caption "GLOBAL BOOK-ENTRY FORM OF OWNERSHIP."

No Optional or Mandatory Redemption

The Bonds will not be subject to optional or mandatory redemption prior to maturity.

SECURITY FOR THE BONDS

General

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

The Bonds will be payable from and secured by a pledge of (i) the Pledged Revenues, consisting of both the Intergovernmental Agreement Revenues and the Pledged Replacement Tax Revenues, (ii) the Pledged Taxes and (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture. As described herein, the Pledged Taxes will be collected only as and to the extent that the Pledged Revenues are not available in sufficient amounts to pay the Compound Accreted Value of the Bonds.

The Bonds will be payable, as to the lien on the Pledged Revenues, on a parity basis with the 1997 Authorization Bonds and any Additional Bonds. The 1996 Authorization Bonds are also payable from and secured by a pledge of the Pledged Replacement Tax Revenues and the lien of the 1996 Authorization Bonds on the Pledged Replacement Tax Revenues is senior in priority

to that of the Bonds and the 1997 Authorization Bonds. In connection with the issuance of the Series 1997A Bonds, the Board revoked its right to issue additional bonds which are secured by this first and senior lien on the Pledged Replacement Tax Revenues. The 1996 Authorization Bonds are not payable from or secured by any pledge of Intergovernmental Agreement Revenues.

While the Bonds will be payable from and secured by a pledge of the specific sources of payment described above, the Board anticipates that all of the debt service on the Bonds will be paid from Intergovernmental Agreement Revenues. For additional information, see "Payment of Debt Service on the Bonds" below and "DEBT SERVICE COVERAGE SCHEDULE."

To ensure the Pledged Revenues are available as needed to pay debt service on the Bonds, the Prior Alternate Bonds and all Additional Bonds, the Board has entered into a Master Alternate Bonds Escrow Agreement, dated November 1, 1997, as supplemented (the "Escrow Agreement"), with Amalgamated Bank of Chicago (the "Escrow Agent"). The Board and the Escrow Agent will execute a supplement (the "Supplement") to the Escrow Agreement to reflect the issuance of the Bonds. The provisions of the Escrow Agreement and the Supplement concerning the collection, deposit and payment of the Pledged Revenues are described below in this caption under "Application of Pledged Revenues; Abatement of Pledged Taxes."

Intergovernmental Agreement Revenues

General. The Intergovernmental Agreement provides that the City will assist the Board in the financing of its Capital Improvement Program by providing the Board with moneys to be used by the Board to pay debt service on obligations issued by the Board for such purpose, including the Bonds. The amounts to be provided by the City pursuant to the Intergovernmental Agreement will be derived from the proceeds of *ad valorem* taxes levied in specified years by the City on all taxable property within the City.

Levy of Taxes Providing Intergovernmental Agreement Revenues. Pursuant to the ordinance approving the execution and delivery by the City of the Intergovernmental Agreement, the City Council of the City has levied direct annual taxes for the purpose of providing funds to the Board to assist in servicing the debt incurred by the Board through the issuance of the Bonds, the 1997 Authorization Bonds and other obligations to be issued in the future by the Board to finance its Capital Improvement Program. The amount of these direct annual taxes to be collected in each year is shown in the caption headed "Intergovernmental Agreement Revenues" under the caption "DEBT SERVICE COVERAGE SCHEDULE."

The annual amount of the taxes levied by the City to provide the Intergovernmental Agreement Revenues has been determined so as to cause the aggregate of (i) such taxes and (ii) the taxes currently levied by the Chicago School Finance Authority (the "Authority") for debt service and by the Board for the payment of the debt service component of its lease obligations with the Public Building Commission of Chicago (the "PBC") to approximate the maximum aggregate amount of the taxes levied in any year for the purposes described in clause (ii). Consequently, the levy of taxes to provide the Intergovernmental Agreement Revenues is

not expected to result in any increase in the aggregate of the taxes currently levied to pay debt service on obligations issued by or for the benefit of the Board. For additional information, see "THE BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Chicago School Finance Authority," "OTHER LOCAL GOVERNMENTAL UNITS -- Certain Other Public Bodies -- Public Building Commission" and "APPENDIX A -- Information Concerning the Real Property Tax System City -- Property Tax Limitation Ordinance."

The Intergovernmental Agreement provides that the taxes levied to provide the Intergovernmental Agreement Revenues may be abated by the City, upon receipt of written notification from the Board, in any year to the extent such Intergovernmental Agreement Revenues are not necessary to pay debt service on the Bonds, the 1997 Authorization Bonds and any Additional Bonds.

Collection and Application of Intergovernmental Agreement Revenues. Pursuant to the Intergovernmental Agreement, prior to the receipt of the first distribution of collections of property taxes in each year in which the taxes levied by the City to provide the Intergovernmental Agreement Revenues are extended for collection, the City will file a segregation order with the County Collectors of Cook and DuPage Counties (the "County Collectors"), specifying the percentage of each distribution of property taxes to be received during such year which is attributable to the taxes levied to produce the Intergovernmental Agreement Revenues and directing the County Collectors to segregate and deposit such percentage of each such distribution of property tax collections directly with the Escrow Agent. In the event that, for any reason, any Intergovernmental Agreement Revenues are paid by the County Collectors directly to the City and are not deposited with the Escrow Agent, such amounts shall be promptly deposited by the City with the Escrow Agent.

The boundaries of the City and the Board are coterminous and the City and the Board share a common real estate tax base. For additional information on the extension and collection of the taxes levied by the City to provide the Intergovernmental Agreement Revenues, see "APPENDIX A - Information Concerning the Real Property Tax System."

Covenants of the City. The City agrees in the Intergovernmental Agreement that it will take no action or fail to take any action which in any way would adversely affect the ability of the City to levy and collect the Intergovernmental Agreement Revenues. The City shall have no right to terminate, cancel or rescind the Intergovernmental Agreement, no right to withhold from the Board payments due or to become due under the Intergovernmental Agreement, no right to recover from the Board amounts previously paid under the Intergovernmental Agreement unless paid in error or contrary to the provisions of the Intergovernmental Agreement or law, no right of reduction or set-off against the amounts due or to become due under the Intergovernmental Agreement, and no lien on any amounts in any fund established by the Board for any reason or on account of the existence or occurrence of any event, condition or contingency, whether foreseen or unforeseen or foreseeable or unforeseeable by the City or the Board or any other person. The levy of taxes to provide the Intergovernmental Agreement Revenues and the collection and application of the Intergovernmental Agreement Revenues, as described herein, does not require any further action by the City Council.

The obligations of the City to make payments of Intergovernmental Agreement Revenues to the Board are limited to and are payable solely and only from the amount of taxes actually collected by the County Collectors on behalf of the City and deposited with the Escrow Agent. The Intergovernmental Agreement provides that the City shall not in any manner be deemed to be an obligor on the Bonds or any credit enhancement thereof by virtue of its execution and delivery of the Intergovernmental Agreement. No owner, holder or credit enhancer of the Bonds shall be deemed to be a third party beneficiary of the Intergovernmental Agreement, nor shall any such owner, holder or credit enhancer of the Bonds have any rights to enforce the provisions of the Intergovernmental Agreement against the City.

Pledged Replacement Tax Revenues

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 constitutional mandate, the General Assembly imposed the "Replacement Taxes," described in more detail below and in APPENDIX B. These taxes became effective on July 1, 1979.

Allocation and Payment. The Replacement Taxes are collected by the Department of Revenue of the State of Illinois (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 Escrow Agent.

For additional information on the collection, allocation and payment of the Replacement Taxes, see "DEBT SERVICE COVERAGE SCHEDULE" and "APPENDIX B -- 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. See "THE BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Recent Legislative Changes." 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 "Future Legislative Action" and "Replacement Tax Statistical Tables" under "APPENDIX B -- Information Concerning Personal Property Replacement Tax Revenues."

Pledged Taxes

Pursuant to the Resolution, the Board has levied the Pledged Taxes to pay debt service on the Bonds. 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, and pledged under the Indenture as security for the Bonds. However, based on projected receipts of the Intergovernmental Agreement Revenues, the Board anticipates that all Pledged Taxes levied for the payment of debt service on the Bonds will be abated. The abatement of the Pledged Taxes levied for each year will be made by the Board prior to the collection of the Intergovernmental Agreement Revenues levied for that year.

To the extent that the Pledged Revenues are not available in sufficient amounts to pay debt service on the Bonds, the Bonds are payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection in any Year, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board in that

Year that percentage attributable to the levy of the Pledged Taxes for the payment of the Bonds, and that amount will be paid directly to the Escrow Agent.

The Escrow Agent will pay to the Trustee, within two Business Days of receipt, for deposit into the Pledged Taxes Account of the Debt Service Fund described below, all of such Pledged Taxes so collected by the Escrow Agent for the payment of debt service on the Bonds. For additional information on the levy and collection of the Pledged Taxes, see "APPENDIX A -- Information Concerning the Real Property Tax System."

Application of Pledged Revenues; Abatement of Pledged Taxes

Deposit of the Pledged Revenues. The Escrow Agreement establishes the Pledged Revenues Escrow Account into which deposits of the Pledged Revenues will be made. The Escrow Agreement also establishes the Personal Property Replacement Tax Revenues Sub-Account and the Intergovernmental Agreement Revenues Sub-Account within the Pledged Revenues Escrow Account. The Personal Property Replacement Tax Revenue Sub-Account further consists of (i) the Prior Bonds Sub-Account and the (ii) Subordinate Bonds Sub-Account.

As described above under "General," the Bonds are secured by a pledge of and lien on the Pledged Revenues; provided that: (i) the pledge of and lien on the Pledged Replacement Tax Revenues is subject to the prior lien of the 1996 Authorization Bonds; (ii) the pledge of and lien on the Pledged Revenues is shared ratably and equally with the 1997 Authorization Bonds; and (iii) the Board may from time to time issue additional obligations ("Additional Bonds") which share ratably and equally with the Bonds and the 1997 Authorization Bonds in the pledge of and lien on all or any portion of the Pledged Revenues.

The Board agrees to deliver to the Escrow Agent a schedule (the "Schedule") setting forth the amounts and type of the Pledged Revenues to be segregated and paid in each calendar year (a "Year") for the payment of the debt service on the Bonds, the 1996 Authorization Bonds, the 1997 Authorization Bonds and all Additional Bonds. The amount of Pledged Replacement Tax Revenues to be segregated by the Escrow Agent and paid to the Trustee and the trustees for each series of the 1996 Authorization Bonds, the 1997 Authorization Bonds and any Additional Bonds in each Year shall be an amount sufficient to pay all debt service due on the Bonds and all debt service due on the 1996 Authorization Bonds, the 1997 Authorization Bonds and any Additional Bonds scheduled to be paid from Pledged Replacement Tax Revenues during the twelve-month period (a "Payment Year") beginning on the April 1 following the end of such Year; subject, however, to the prior lien of the 1996 Authorization Bonds on the Pledged Replacement Tax Revenues, as described herein. Although the Bonds and the Series 1998 Bonds are both secured by a pledge of and lien on the Pledged Revenues, all of the debt service on the Bonds and on the Series 1998 Bonds is scheduled to be paid from Intergovernmental Agreement Revenues and none is scheduled to be paid from Pledged Replacement Tax Revenues.

As described under "Collection and Application of Intergovernmental Agreement Revenues" above, pursuant to irrevocable direction of the City, in accordance with the Intergovernmental Agreement, each County Collector is required to deposit all collections of the

Intergovernmental Agreement Revenues as received directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. All Intergovernmental Agreement Revenues collected by the Escrow Agent in each Year shall be deposited immediately into the Intergovernmental Agreement Revenues Sub-Account.

Pursuant to the irrevocable direction of the Board, the Department of Revenue deposits with the Escrow Agent all Personal Property Replacement Tax Revenues allocated for payment to the Board for application in accordance with the provisions of the Escrow Agreement. Prior to the first day of each Year, the Board is required, pursuant to the terms of the Escrow Agreement, to notify the Escrow Agent by written direction of the amount of the Personal Property Replacement Tax Revenues to be collected in such Year necessary to be applied to the payment of the Statutory Claims, if any, in such Year. As the Escrow Agent collects the Personal Property Replacement Tax Revenues paid to the Board for such Year, the first dollars collected, up to the amount set forth in the written direction of the Board as necessary for payment of the Statutory Claims, will be remitted to the Board for such purpose. Pledged Replacement Tax Revenues shall consist of all Personal Property Replacement Tax Revenues collected by the Escrow Agent in each Year, remaining after the distribution to the Board for the payment of any Statutory Claims.

All Pledged Replacement Tax Revenues shall be deposited immediately: (i) first, into the Prior Bonds Sub-Account until an amount sufficient to pay all debt service due on the 1996 Authorization Bonds during the Payment Year beginning on the April 1 following the end of such Year has been deposited therein; and (ii) second, into the Subordinate Bonds Sub-Account until an amount sufficient to pay all debt service due on the Bonds, the 1997 Authorization Bonds and any Additional Bonds scheduled to be paid from the Pledged Replacement Tax Revenues during the Payment Year beginning on the April 1 following the end of such Year has been deposited therein.

Application of Pledged Revenues by Escrow Agent. As soon as practicable after the collection by the Escrow Agent of each distribution of Pledged Replacement Tax Revenues in any Year, but not later than two (2) Business Days following the date of collection, the Escrow Agent shall: (i) first, distribute to the trustee(s) for the 1996 Authorization Bonds the amount deposited in the Prior Bonds Sub-Account; and (ii) second, distribute to the Trustee and the trustees for the 1997 Authorization Bonds and for any Additional Bonds scheduled to be paid from the Pledged Replacement Tax Revenues, a pro rata amount of the amount deposited into the Subordinate Bonds Sub-Account.

The distributions from the Subordinate Bonds Sub-Account shall be calculated by multiplying, in each case, the total amount then on deposit in the Subordinate Bonds Sub-Account by a fraction, the numerator of which is the debt service scheduled to be paid on the Bonds, each series of 1997 Authorization Bonds or any series of Additional Bonds, as applicable, from Pledged Replacement Tax Revenues on June 1 of the Payment Year beginning on the April 1 following the end of such Year and the denominator of which is the total amount of debt service scheduled to be paid from Pledged Replacement Tax Revenues on the Bonds, the 1997 Authorization Bonds and any such Additional Bonds on June 1 of such Payment Year.

After the amount of Pledged Replacement Tax Revenues deposited in the Subordinate Bonds Sub-Account is sufficient to pay the total amount of debt service scheduled to be paid from Pledged Replacement Tax Revenues on such June 1, the distributions described in the preceding sentence shall be made in the same manner but for such debt service scheduled to be paid from Pledged Replacement Tax Revenues on December 1 of said Payment Year.

Once the segregations, payments and deposits of Pledged Replacement Tax Revenues described above have been made in each Year in amounts sufficient to satisfy the Schedule provided by the Board, the Escrow Agent shall: (i) give written notice to each trustee that segregations, payments and deposits of Pledged Replacement Tax Revenues for the then-current Year are complete and will cease; and (ii) forward all Personal Property Replacement Tax Revenues collected thereafter during the then-current Year to the Board immediately upon receipt thereof.

As soon as practicable after the collection by the Escrow Agent of each distribution of Intergovernmental Agreement Revenues in any Year, but not later than two (2) Business Days following the date of collection, the Escrow Agent shall distribute to the Trustee, the trustees for the 1997 Authorization Bonds and for any Additional Bonds a pro rata amount of such distribution, calculated by multiplying, in each case, the total amount of such distribution by a fraction, the numerator of which is the debt service scheduled to be paid on the Bonds, each series of the 1997 Authorization Bonds or on any series of Additional Bonds, as applicable, from Intergovernmental Agreement Revenues on June 1 of the Payment Year beginning on the April 1 of such Year and the denominator of which is the total amount of debt service scheduled to be paid from Intergovernmental Agreement Revenues on the Bonds, the 1997 Authorization Bonds and such Additional Bonds on June 1 of such Payment Year. After the amount of Intergovernmental Agreement Revenues distributed to the Trustee and the trustees for the 1997 Authorization Bonds and any Additional Bonds is sufficient to pay the total amount of debt service scheduled (or deemed to be scheduled) to be paid from Intergovernmental Agreement Revenues on such June 1, the distributions described in the preceding sentence shall be made in the same manner but for debt service scheduled to be paid on the Bonds, the 1997 Authorization Bonds and any Additional Bonds from Intergovernmental Agreement Revenues on December 1 of said Payment Year. (All debt service on the Bonds will consist of payments of Compound Accreted Value scheduled to be paid on December 1 of each Payment Year.) Such distributions of Intergovernmental Agreement Revenues shall continue to be made, as described in the preceding sentence, even after payments and deposits have been made in each Year in amounts sufficient to satisfy the Schedule provided by the Board.

Each distribution by the Escrow Agent to the Trustee and the trustees for the 1996 Authorization Bonds, the 1997 Authorization Bonds and any Additional Bonds shall be accompanied by a statement specifying the amount of funds distributed from Pledged Replacement Tax Revenues and Pledged Taxes with respect to the 1996 Authorization Bonds and from Pledged Replacement Tax Revenues, Intergovernmental Agreement Revenues and Pledged Taxes with respect to the Bonds, the 1997 Authorization Bonds and any Additional Bonds.

Payment of Debt Service on the Bonds. The Indenture establishes the Debt Service Fund (as defined herein) as a separate fund pledged to the payment of debt service on the Bonds. The Indenture also establishes three separate accounts in the Debt Service Fund, known as the "Pledged Revenues Account," the "Pledged Taxes Account" and the "Bond Payment Account." The Pledged Revenues Account consists of the Deposit Sub-Account and the Payment Sub-Account. The Payment Sub-Account further consists of (i) the Personal Property Replacement Tax Revenues Sub-Account and (ii) the Intergovernmental Agreement Revenues Sub-Account. Pursuant to the Indenture, the Pledged Revenues received by the Trustee from the Escrow Agent shall be applied to the payment of debt service on the Bonds in accordance with the following procedures.

The Indenture provides that: (i) all Intergovernmental Agreement Revenues shall be deposited promptly upon receipt in the Intergovernmental Agreement Revenues Sub-Account; and (ii) all Pledged Replacement Tax Revenues shall be deposited promptly upon receipt in any Year into the Deposit Sub-Account, until there shall be on deposit therein an amount of Pledged Replacement Tax Revenues sufficient to pay all of the debt service on the Bonds scheduled to be paid from Pledged Replacement Tax Revenues during the twelve month period beginning on December 2 (a "Bond Year") of such Year. The Indenture further provides that promptly after there shall have been deposited to the credit of the Deposit Sub-Account in any Year an amount sufficient to satisfy the requirement set forth in the preceding sentence, the Trustee shall: (i) notify the Board of that fact and the Board shall take such actions as are necessary to abate the Pledged Taxes levied for the then-current Year in full; and (ii) not earlier than December 3 of the then-current Year nor later than the last Business Day of the then-current Year, transfer all amounts on deposit in the Deposit Sub-Account into the Personal Property Replacement Tax Revenues Sub-Account. The Indenture further provides that in the event that as of the last Business Day of any Year there has been deposited to the credit of the Deposit Sub-Account an insufficient amount to satisfy the requirement set forth in the preceding paragraph, the Trustee shall: (i) 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 debt service on the Bonds during the Bond Year beginning on December 2 of the then-current Year and scheduled to be paid from Pledged Replacement Tax Revenues; and (ii) on such last Business Day of such Year, transfer all amounts on deposit in the Deposit Sub-Account into the Personal Property Replacement Tax Revenues Sub-Account.

As described under "-Deposit of Pledged Revenues" above, all of the debt service on the Bonds is scheduled to be paid from the Intergovernmental Agreement Revenues and none is scheduled to be paid from the Pledged Replacement Tax Revenues. Consequently: (i) no Pledged Replacement Tax Revenues are expected to be deposited in the Deposit Sub-Account in any Year; and (ii) the levy of the Pledged Taxes will be abated in each Year prior to the collection in the following Year of the Intergovernmental Agreement Revenues which are scheduled to pay debt service on the Bonds in that Year. For additional information, see "-Pledged Taxes" above.

On or before each December 1, there shall be transferred, to the Bond Payment Account, first from moneys on deposit in the Pledged Taxes Account, second from the Intergovernmental Agreement Revenues Sub-Account and last from the Personal Property Replacement Tax Revenues Sub-Account, an amount equal to the Compound Accreted Value of the Bonds which is payable on such date.

Pledged Revenues Not Needed to Pay Debt Service. All amounts on deposit in the Personal Property Replacement Tax Revenues Sub-Account on December 2 of each Year shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture, which withdrawal shall be made prior to any deposit to the Personal Property Replacement Tax Revenues Sub-Account as described under "Payment of Debt Service on the Bonds."

All amounts on deposit in the Intergovernmental Agreement Revenues Sub-Account on December 2 of each Year shall be withdrawn from such Sub-Account and paid to the Board free and clear of the lien of the Indenture.

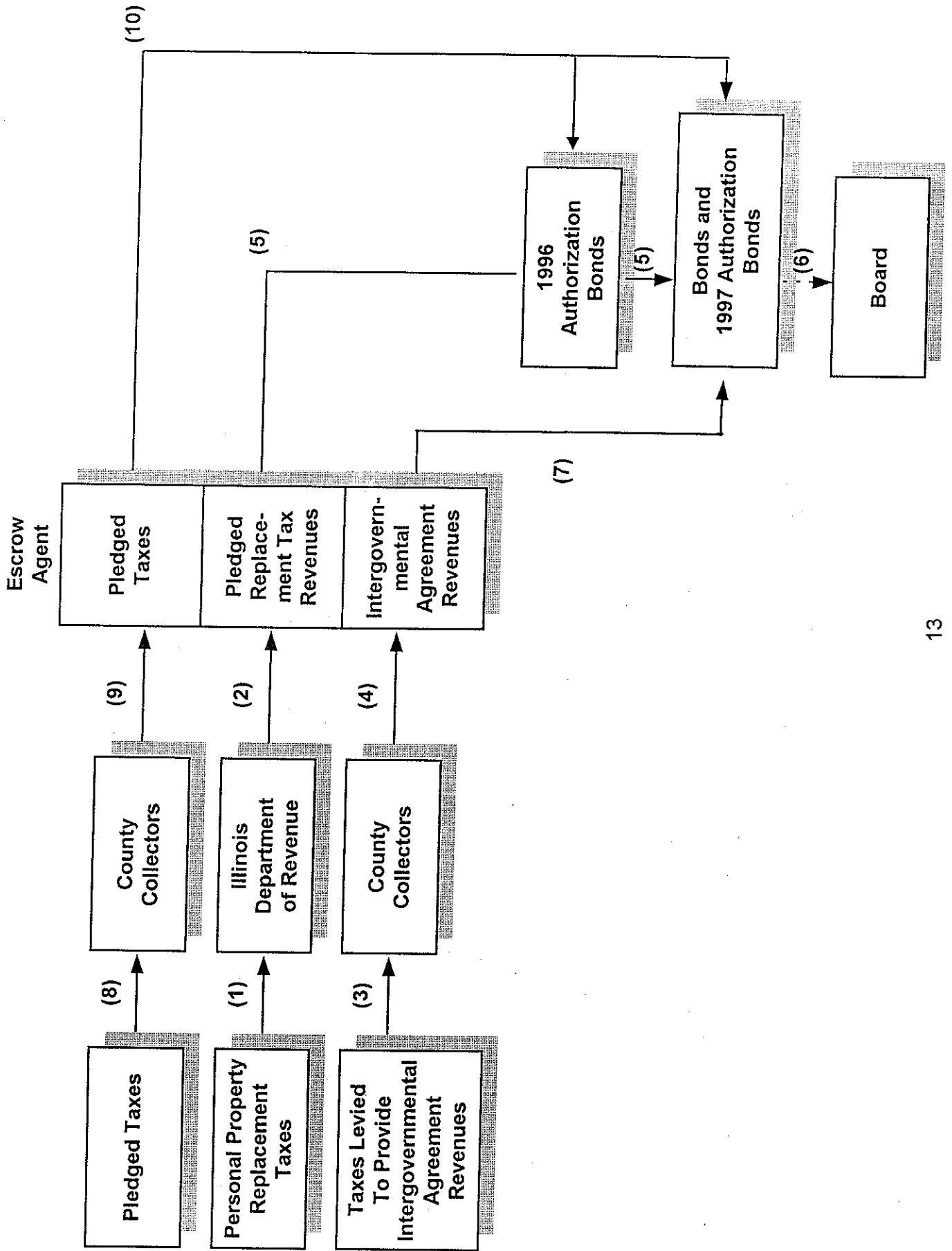
Indenture -- Funds, Accounts and Sub-Accounts

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

Flow of Funds

The following chart and accompanying explanatory notes illustrate the flow of funds with respect to the Pledged Revenues and the Pledged Taxes:

FLOW OF FUNDS



FLOW OF FUNDS NOTES

- (1) Corporations, partnerships and trusts remit income tax component of Replacement Taxes with regular state income tax quarterly payments. Invested capital tax on gas and water utilities and tax on the distribution of electricity is paid quarterly. Telecommunications infrastructure maintenance fee is paid monthly.
- (2) In the months of January, March, April, May, July, August, October and December, the Department of Revenue deposits 100% of Board's allocation of Replacement Taxes with Escrow Agent, pursuant to written direction of the Board. No appropriation by the Illinois General Assembly is required.
- (3) City levies *ad valorem* taxes, to provide the Intergovernmental Agreement Revenues. Property taxpayers in the City pay property taxes providing the Intergovernmental Agreement Revenues in two installments to County Collectors. The first installment is due on March 1 and the second, the later of August 1 or 30 days after mailing of the tax bills.
- (4) County Collectors deposit Intergovernmental Agreement Revenues with the Escrow Agent as received.
- (5) Escrow Agent remits Personal Property Replacement Tax Revenues used to fund prior pension or retirement obligations (Statutory Claims), if any, to the Board. Under current law, no portion of the Personal Property Replacement Tax Revenues is required to be applied to fund the Board's existing pension and retirement obligations. Escrow Agent next remits Pledged Replacement Tax Revenues as follows: first to the trustee(s) for the 1996 Authorization Bonds; and then to the Trustee and the trustee(s) for the 1997 Authorization Bonds.
- (6) If Escrow Agent receives Pledged Replacement Tax Revenues sufficient to pay the debt service due on the 1996 Authorization Bonds for the next succeeding year and debt service scheduled to be paid on the Bonds and the 1997 Authorization Bonds from Pledged Replacement Tax Revenues for next succeeding year, Escrow Agent remits all other Personal Property Replacement Tax Revenues collected in current year to Board.
- (7) Escrow Agent remits all Intergovernmental Agreement Revenues as received to the Trustee and the trustee(s) for the 1997 Authorization Bonds for payment of such Series of Bonds.
- (8) If Pledged Replacement Tax Revenues are insufficient to pay debt service on the Bonds scheduled to be paid from Pledged Replacement Tax Revenues in succeeding calendar year, Board extends Pledged Taxes to meet such deficiency.
- (9) County Collectors deposit all Pledged Taxes levied for payment of debt service on the Bonds with Escrow Agent as received.
- (10) Escrow Agent remits Pledged Taxes to the Trustee for payment of debt service on the Bonds to the extent needed.

Additional Obligations Payable From Pledged Revenues

The Board may issue Additional Bonds from time to time payable from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the 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. For additional information, see "CAPITAL IMPROVEMENT PROGRAM--Future Financings."

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

Bonds Are Obligations of the Board

The Bonds are the direct 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, the Authority, or any other political subdivision of the State (other than the Board). As described in this caption under "Levy of Taxes Providing Intergovernmental Agreement Revenues," the Intergovernmental Agreement Revenues used to pay debt service on the Bonds will be paid to the Board by the City from the collection of certain ad valorem taxes levied by the City. However, neither the full faith and credit nor the taxing power of the City, the State, the Authority, or any other political subdivision of the State (other than the Board) is pledged to the payment of the Bonds.

BOND INSURANCE

The following information has been furnished by Financial Guaranty for use in this Official Statement. Reference should be made to APPENDIX E for a specimen of the Policy.

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Policy for the Bonds. The Policy unconditionally guarantees the payment of the portion of the Compound Accreted Value of the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Board. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such Compound Accreted Value is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Board. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the Compound Accreted Value due for payment and evidence, including any appropriate instruments

of assignment, that all of such owner's rights to payment of such Compound Accreted Value shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of Compound Accreted Value made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay Compound Accreted Value of the Bonds on stated maturity dates.

This Official Statement contains a section entitled "RATINGS" regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 1998, the total capital and surplus of Financial Guaranty was \$1,282,692,798. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

CAPITAL IMPROVEMENT PROGRAM

Overview

The Capital Improvement Program was adopted by the Board in 1996 as a five-year program for the rehabilitation, revitalization and reconstruction of the Chicago Public Schools. It is the largest school construction and rehabilitation program in the Board's history and among the largest urban school capital improvement programs currently being implemented in the United States. The Capital Improvement Program is organized around three basic and critical objectives: (a) reducing student density, to no more than 80 percent of each school's design capacity, so as to relieve severe overcrowding, (b) achieving a minimum level of physical condition and operating efficiency for each educational 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:

- **New construction**, including new schools, additions, annexes and modular units;
- **Building renovation**, including new windows, new roofs, masonry, science labs, gymnasiums, technology projects, Americans with Disabilities Act improvements and energy efficiencies; and
- **Educational enhancements**, such as new campus parks, playlots and information technology, including wiring and equipment to connect all Board facilities to a wide area network.

History and Recent Modifications

Initially, the Board identified \$806 million in projects to be funded over a period of five years. Projects totaling \$320 million were subsequently identified as Phase I of the Capital Improvement Program. By early 1997, the Board anticipated increasing total Capital Improvement Program spending to \$2 billion by 2002, including an additional \$600 million in projects identified in March of 1997 and classified as Phase II.

The Board recently increased the total size and scope of the Capital Improvement Program, having identified a total of approximately \$3.5 billion in required capital improvements to the Chicago Public Schools, including projects funded since 1996 and projects anticipated to be funded during the next five years. Because of the growing scope of the Capital Improvement Program and a realization that successful implementation would require an on-going effort over many years, the Board has recently modified key elements of the Capital Improvement Program. First, projects are now tied to fiscal years rather than phases. Second, the Board has determined to annually update and modify its plan for the capital improvements to be made to the physical infrastructure of the Chicago Public Schools over the succeeding five years, based on estimates of funding availability and project priorities. These modifications were made to improve (i) internal management of the Capital Improvement Program and (ii) public understanding and participation.

Program Management

Effective September 1998, the Board engaged Chicago School Associates, a joint venture of design, engineering and construction firms, to provide program management services for the Capital Improvement Program, with a focus on streamlining external management, ensuring appropriate oversight and providing cost control.

Summary of Work Performed and Expenditures to Date

Since the inception of the Capital Improvement Program, 1,102 new classrooms have been constructed or will be completed by August 1999. These new classrooms are distributed throughout 29 new schools and additions, 27 annexes, and 57 modular units. Additionally, 346

renovation projects have been completed, with 592 additional projects currently underway or planned for fiscal year 1999.

The Board issued the Series 1996 Bonds, the Series 1997 Bonds and the Series 1997A Bonds, in the aggregate principal amount of approximately \$1.35 billion, to finance the Capital Improvement Program through the end of the fiscal year 1998. To date, the Board has expended approximately \$800 million of proceeds of these Bonds for the implementation of the Capital Improvement Program. All of the net remaining proceeds of these Series of Prior Alternate Bonds have been "encumbered" or obligated for future expenditure on identified projects. The Board issued the Series 1998 Bonds on September 24, 1998, in the principal amount of \$14 million, to renovate, rehabilitate and equip a new high school known as the Bronzeville Academy. All net proceeds of the Series 1998 Bonds are in the process of being encumbered for expenditure on the Bronzeville Academy.

Future Financings

The Board plans to issue Additional Bonds to continue implementation of the Capital Improvement Program. In addition, the Board anticipates that, subject to market conditions and other factors, it will issue one or more series of Additional Bonds (collectively referred to the "Series 1998A Bonds") to refund, at or prior to maturity, a portion of the debt service on the Series 1996 Bonds, the Series 1997 Bonds and the Series 1997A Bonds. See "SECURITY FOR THE BONDS--Additional Obligations Payable From Pledged Revenues."

In accordance with the requirements of the Debt Reform Act, the Board has also recently authorized the issuance of an additional \$900 million of general obligation "alternate bonds" (the "1998 Authorization") payable from one or more of the following sources: the Pledged Revenues; State school aid payments received by the Board; State school construction project or debt service grants to be received by the Board (see "THE BOARD OF EDUCATION OF CITY OF CHICAGO--Recent Legislative Changes--1997 Education Funding and Reform Legislation"); or rental income derived from Board property. The Board anticipates that it will issue one or more series of bonds, pursuant to the 1998 Authorization, to continue implementation of the Capital Improvement Program. Some or all of these bonds may be Additional Bonds, as described above.

In addition, other types of debt obligations, secured by revenue sources other than or in addition to those sources which are: (i) the security for the Bonds, the 1996 Authorization Bonds and the 1997 Authorization Bonds; or (ii) the sources of security described in the 1998 Authorization, may be used to provide the Board with funds for future implementation of certain components of the Capital Improvement Program.

APPLICATION OF PROCEEDS

The proceeds from the sale of the Bonds are estimated to be applied as follows:

Deposit to the Project Fund for the Capital Improvement Program	\$324,875,120
Payment of Costs of Issuance, Municipal Bond Insurance Premium and Underwriter's Discount	<u>3,839,244</u>
Principal Amount of the Bonds	<u>\$328,714,364</u>

The foregoing assumes delivery of the Bonds on October 28, 1998.

DEBT SERVICE COVERAGE SCHEDULE (Dollars in thousands)

Calendar Year	Pledged Replacement Tax Revenues(1)	Intergovernmental Agreement Revenues(2)	Total Pledged Revenues(3)	Debt Service on Prior Alternate Bonds(4)(5)	Debt Service on the Bonds(4)	Debt Service on the Prior Alternate Bonds and the Bonds(4)(5)	Coverage Ratio of Pledged Revenues to Debt Service Prior Alternate Bonds and the Bonds(5)
1998	\$129,555	\$ 0	\$129,555	\$ 35,651	\$-----	\$ 35,651	3.63
1999	129,555	0	129,555	54,212	-----	54,212	2.39
2000	129,555	0	129,555	54,210	-----	54,210	2.39
2001	129,555	0	129,555	59,489	-----	58,489	2.18
2002	129,555	0	129,555	67,489	-----	67,489	1.92
2003	129,555	13,400	142,955	83,772	-----	83,772	1.71
2004	129,555	13,400	142,955	83,760	-----	83,780	1.71
2005	129,555	0	129,555	83,782	-----	83,782	1.55
2006	129,555	18,200	147,755	83,780	-----	83,780	1.76
2007	129,555	18,100	147,655	83,766	-----	83,766	1.76
2008	129,555	18,800	148,355	83,787	-----	83,787	1.77
2009	129,555	91,000	220,555	90,833	29,360	120,193	1.84
2010	129,555	91,000	220,555	90,823	29,365	120,188	1.84
2011	129,555	91,000	220,555	120,045(6)	14,145	134,190(6)	1.64(6)
2012	129,555	91,000	220,555	106,105	20,400	126,605	1.74
2013	129,555	91,000	220,555	106,070	20,400	126,470	1.74
2014	129,555	91,000	220,555	106,071	20,400	126,471	1.74
2015	129,555	91,000	220,555	106,089	20,400	126,489	1.74
2016	129,555	91,000	220,555	106,061	20,400	126,461	1.74
2017	129,555	91,000	220,555	106,028	20,400	126,428	1.74
2018	129,555	91,000	220,555	106,059	20,400	126,459	1.74
2019	129,555	112,500	242,055	106,088	41,900	147,988	1.64
2020	129,555	142,300	271,855	113,554	64,300	177,854	1.53
2021	129,555	142,300	271,855	113,554	64,300	177,854	1.53
2022	129,555	142,300	271,855	113,535	64,300	177,835	1.53
2023	129,555	142,300	271,855	118,733	59,000	177,733	1.53
2024	129,555	142,300	271,855	118,749	59,000	177,749	1.53
2025	129,555	142,300	271,855	118,645	59,000	177,645	1.53
2026	129,555	142,300	271,855	118,714	59,000	177,714	1.53
2027	129,555	142,300	271,855	118,775	59,000	177,775	1.53
2028	129,555	142,300	271,855	52,186	100,000	152,186	1.79
2029	129,555	142,300	271,855	52,186	100,000	152,186	1.79
2030	129,555	142,300	271,855	52,188	100,000	152,188	1.79
2031	129,555	142,300	271,855	-----	100,000	100,000	2.72

(1) Reflects the Replacement Tax Revenues received by the Board during its fiscal year 1998. Replacement Tax Revenues to be received by the Board in future years are subject to upward and downward adjustment. If the Board in future years receives Replacement Tax Revenues in excess of this amount, the principal amount of additional general obligation "alternate" bonds that the Board would be authorized to issue would increase correspondingly, consistent with the applicable requirements of the Debt Reform Act. For recent collection history, see "Replacement Tax Statistical Tables" in "APPENDIX B - Information Concerning Personal Property Replacement Tax Revenue."

(2) Reflects amounts set forth in the Intergovernmental Agreement. Taxes levied by the City to provide the Intergovernmental Agreement Revenues will be extended for collection in the calendar year following the year in which they are levied. For additional information, see "Security For the Bonds -- Intergovernmental Agreement Revenues -- Levy of Taxes Providing Intergovernmental Agreement Revenues."

(3) Pledged Replacement Tax Revenues will be applied for payment of debt service in the year following the year of collection. Intergovernmental Agreement Revenues will be applied for the payment of debt service in the year of collection.

(4) See "SECURITY FOR THE BONDS -- General" for a discussion of lien priority among the various Series of the Prior Alternate Bonds.

(5) Net of capitalized interest.

(6) Reflects the issuance of the Series 1998 Bonds (maturing in 2011 in the aggregate principal amount of \$14 million). See "INTRODUCTION -- Prior Alternate Bonds."

THE 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 twelve. Responsibility for the governance of the Board and policy-making for the public school system is currently vested in the five member Chicago School Reform Board of Trustees (the "Reform Board of Trustees"). In addition, pursuant to amendments to the School Code initially enacted in 1988, elected local school councils, composed of parents, teachers, principals and community representatives, exercise certain powers relating to the operation of individual schools in the Chicago public school system, including selection of principals.

Reform Board of Trustees

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 Reform Board of Trustees. The Reform Board of Trustees is the current governing body for the Board and the City's public school system. The Reform Board of Trustees adopts the budget, approves contracts (including collective bargaining agreements), levies real property taxes and establishes the general policies of the Board. The five members of the Reform Board of Trustees are appointed by the Mayor of the City (the "Mayor"), without consent or approval of the City Council. The Mayor designates one of the members as President of the Reform Board of Trustees. The current members of the Reform Board of Trustees are:

Gery J. Chico is the President of the Reform Board of Trustees. Mr. Chico is a partner at the law firm of Altheimer & Gray where he heads the Government and Municipal Finance Group. From 1992 to 1995, he served as Chief of Staff to Mayor Richard M. Daley, Mayor of the City of Chicago. Mr. Chico has also served as Deputy Chief of Staff and General Counsel to the Chicago Development Council. Mr. Chico received his law degree from Loyola University School of Law and a Bachelor's degree from the University of Illinois. He is a graduate of the Chicago Public Schools where his three children are currently enrolled. Mr. Chico is active in many civic and professional groups and is presently a commissioner of the PBC and is a past President of the Mexican-American Chamber of Commerce.

Norman R. Bobins is the President and Chief Executive Officer of LaSalle National Bank. He also serves as a Trustee of the Public School Teachers' Pension and Retirement Fund 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 Director of the Mount Sinai Madison Family Health Center. As part of his medical practice, Dr. Butt provides a range of medical services to patients on the west side of the City, regardless of their ability to pay. Dr. Butt is a native of Pakistan, where he received his medical training. He has also served as Chairman of the Mayor's Advisory Council on Asian-American Affairs, a position from which he resigned to serve on the Reform Board of Trustees. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards.

Avis LaVelle is Vice President of Government and Public Affairs for the University of Chicago Hospitals. She was formerly Vice President of Communications for Waste Management, Inc. and, prior to that, Assistant Secretary for Public Affairs in the United States Department of Health and Human Services. She also served as press secretary to the Mayor of the City of Chicago. Prior to her local and national government experience, LaVelle was the senior political correspondent at WGN Radio. A graduate of the Chicago Public Schools, she is currently serving on the Chicago State University Foundation Board and is active in other civic organizations.

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

The terms of the members of the Reform Board of Trustees expire on the earlier of June 30, 1999 or the appointment of a new Chicago Board of Education. This new Chicago Board of Education, consisting of seven members, shall be appointed by the Mayor, without the consent of the City Council, to take office on the later of July 1, 1999 or the appointment of the seventh member of such new Chicago Board of Education.

Central Administration

The chief administrative officer of the Board is the Chief Executive Officer, who is appointed directly by the Mayor, without the consent or approval of the City Council or the Reform Board of Trustees. The Chief Executive Officer is responsible for the management and operation of the Chicago public school system. The Chief Executive Officer makes recommendations to the Reform Board of Trustees with respect to contracts, policies and procedures. The Chief Executive Officer appoints, with the approval of the Reform Board of Trustees, a Chief Education Officer, a Chief Operating Officer, a Chief Fiscal Officer and a

Chief Purchasing Officer. The terms of office of each of these officers expires on June 30, 1999. In addition, the Reform Board of Trustees appoints the General Counsel (also referred to as the Board Attorney). These officers are currently:

Chief Executive Officer	Paul G. Vallas
Chief Education Officer	Cozette E. Buckney
Chief Operating Officer	Timothy W. Martin
Chief Fiscal Officer	Kenneth C. Gotsch
Chief Purchasing Officer	Diane E. Minor
General Counsel	Marilyn F. Johnson

Paul G. Vallas is the Chief Executive Officer of the Board. He previously served as Budget Director and Director of Revenue for the City. He also served as Executive Director of the Illinois Economic and Fiscal Commission. Until recently Mr. Vallas was a Captain in the Illinois Army National Guard. He has also taught at the elementary, high school and college levels. He received degrees in political science from Western Illinois University.

Cozette E. Buckney is the Chief Education Officer of the Board. Prior to her current appointment, Dr. Buckney served as Mr. Vallas' Chief of Staff at the Chicago Public Schools. Her nearly thirty years with the Chicago Public Schools include roles as principal of three schools and assistant principal of another. She began her career in the Chicago Public Schools as an English teacher. Dr. Buckney holds a doctorate degree in education from Vanderbilt University and has taught at a college masters program. She is active in many civic and professional groups, including service as president of Girl Scouts of Chicago.

Timothy W. Martin is the Chief Operating Officer of the Board. He served as Chief Highway Engineer and Deputy Commissioner at the Chicago Department of Transportation since 1992, where he developed an approximately \$60 million capital program. Mr. Martin has also served as Chief Transportation Engineer for the Chicago Department of Public Works. Mr. Martin received a Bachelor of Engineering and a Master of Business Administration from the University of Illinois at Chicago. Mr. Martin is a registered Professional Engineer in Illinois and a member of ISPE, ASCE and APWA.

Kenneth C. Gotsch is the Chief Fiscal Officer of the Board. His previous position was both as the Deputy Director for the Chicago Department of Revenue's Tax Administration Division and as Manager of Information Services for the Department of Revenue. Prior to his service with the City, Mr. Gotsch served with the Illinois Economic and Fiscal Commission and as an accountant with Price Waterhouse. Mr. Gotsch received a Master of Arts degree in Public Finance from the University of Chicago's Irving B. Harris Graduate School of Public Policy Studies and a Bachelor of Science degree in Business Administration and Finance from Marquette University.

Diane E. Minor is the Chief Purchasing Officer of the Board. She previously served as the Contract Compliance Administrator/Deputy Purchasing Agent for the City. Ms. Minor

has also held positions with the City's Office of Cable Communications and with the Mayor's Office of Employment and Training. Ms. Minor received a Master of Arts in Teaching from the Teacher Corps Program at Roosevelt University and a Bachelor of Arts in Urban Studies from Carleton College. She is a graduate of the Chicago Public Schools.

Marilyn F. Johnson is General Counsel to the Board. Prior to her appointment with the Board, she served as General Counsel for the Chicago Housing Authority and as Deputy Corporation Counsel and Chief Assistant Corporation Counsel for the City of Chicago Department of Law. Ms. Johnson received her law degree from the University of Illinois at Urbana and her undergraduate degree from the University of Chicago.

School System

The Chicago public school system consists of 583 attendance centers consisting of 488 elementary schools, 87 high schools and eight charter schools serving approximately 428,000 children. The Board's operating budget for its 1999 fiscal year is approximately \$3.2 billion.

The following table presents the fall enrollment in the school system for the last five school years for which information is available.

<u>School Year</u>	<u>Elementary School</u>	<u>High School</u>	<u>Combined</u>
1997/98	329,574	98,610	428,184
1996/97	319,744	101,590	421,334
1995/96	310,576	102,345	412,921
1994/95	305,221	102,020	407,241
1993/94	306,682	102,817	409,499

Educational Reform Initiatives

The Board created the Children First educational plan to provide a comprehensive approach to educating its students. The Children First initiatives focus on four primary goals: academic achievement, system-wide accountability, alternative programs for special student needs, and partnerships with the Chicago community.

Numerous initiatives aim to provide a quality academic foundation for children at all stages of development. Programs such as small schools, charter schools and computer-based learning provide more individualized attention to students. Improvements and expansions are planned for early childhood programs including "Parents as Teachers First" and "Cradle-to-Classroom" which were added to draw young children into the educational process.

A redesigned back-to-basics high school curriculum reinforcing academic achievement now includes a community service requirement, and courses in career education. Honors and advanced placement classes are also being increased, accommodating more students.

Other newly developed initiatives include a Reading Action Plan which provides a comprehensive approach to improved reading practices and a Learning Technology Program developed to assist schools in obtaining classroom technology and incorporating technology into the curriculum.

Several initiatives strive to increase accountability throughout the system by setting standards for principals, teachers, students, and schools as a whole. More stringent standards for principal selection and retention enhance accountability at the principal level. The Teacher and Principal Academies and Teachers Accountability Unit help teachers and principals develop necessary skills so they can be held accountable for their performance. Social promotion has been eliminated, and third, sixth, eighth and ninth grade students who fail to meet performance standards sufficient to advance to the next grade must attend a Summer Bridge Program. The Bridging the Gap after-school program has also been established to help students meet promotion requirements. Two new summer programs, Making the Grade and Early Intervention Summer Program, will help students across all grade levels meet promotional requirements. The total number of students involved in summer programs (Summer Bridge, Making the Grade, Early Intervention, the Mayor's Summer Program and regular summer school) in fiscal year 1999 is expected to reach approximately 175,000.

Schools are placed on probation or remediation if they fail to meet certain educational benchmarks, and teams of educational experts from within and outside the system work with these schools to help them meet academic standards. In the last two school years, 124 schools have been placed on academic probation. (Nine schools were removed from probation at the beginning of the 1997-98 school year and another 26 are currently eligible to be taken off probation.) Eleven schools which demonstrated the need for more effective leadership were assigned new principals and seven high schools were "reconstituted" in the summer of 1997 for consistently failing to meet performance standards. Reconstitution involves essentially closing the school and reopening it, with all staff having to apply for their positions.

The diverse needs of students are being met through such programs as alternative schools for disruptive students, expanded bilingual education and Junior Academies for freshmen and sophomores failing to meet performance standards. After-school programs such as the Lighthouse tutoring program, after-school academies, social centers and interfaith partnerships effectively extend the school day. The Board also adopted a policy lowering the mandatory age for starting school from seven to five to promote earlier entrance into the educational process, and the Board's preschool programs now enroll approximately 22,000.

The Board has developed approximately 250 partnerships with corporations which offer on-the-job training programs for students as well as other resources. Additionally, college bridge programs allow exceptional achievers the opportunity to participate in classes at local colleges. The School Partners Program links businesses with schools for tutoring, mentoring and other services.

In addition to the Children First initiatives, the Board is increasing the number of charter schools from eight to 12. Charter schools were established in Chicago during fiscal year 1998, pursuant to authorization provided in a recent amendment to the School Code. These schools are independently operated, pursuant to a charter negotiated with and approved by the Board. Charter schools receive the same per pupil funding allocations as is otherwise provided to the Chicago Public Schools and are free of most state and local mandates, including requirements derived from collective bargaining agreements with employee groups.

Results of the Iowa Tests of Basic Skills (ITBS) and the Tests of Achievement and Proficiency (TAP) in fiscal year 1998 reflect the impact of the Board's numerous educational reform initiatives. Overall scores improved for a third consecutive year in reading and math in elementary schools, and a second consecutive year in reading and math for high schools.

Chicago Teachers' Union and Other Employee Groups

For its 1999 fiscal year, the Board employs approximately 45,000 persons. Approximately 87% of the Board's employees are represented by six unions that engage in collective bargaining with the Board. As of September 1, 1998, approximately 72% of the Board's employees were represented by the Chicago Teacher's Union (the "CTU") and approximately 15% were represented by five other unions.

In August, 1995, the Reform Board of Trustees reached four-year employee contractual agreements with the CTU and the Board's other employee groups. These agreements provide for: (1) base salary increases for teachers of (a) 3% for fiscal year 1996, (b) 3% for fiscal year 1997, (c) 3.25% for fiscal year 1998 and (d) 3.375% for fiscal year 1999 and (2) base salary increases for non-teaching personnel of 3% for the fiscal year 1996 and 3% for each of fiscal years 1997 through 1999. The salary and wage increases for fiscal year 1997 through 1999 were subsequently approved by the Board. Contemporaneous with the resolution and approval of the Board's contractual agreement with the CTU, the Reform Board of Trustees adopted a policy which provides that the Board may increase or adjust class size after providing the CTU with prior written notice of such increase or adjustment but without obtaining the prior approval or consent of the CTU. For a discussion of pension and retirement benefits for eligible employees, see "Employee Pension Obligations" below under this caption.

Although the current contract with the CTU does not expire until June 30, 1999, contract renewal negotiations are currently underway in an effort to resolve outstanding issues substantially prior to the expiration of this contract.

Legislative Changes

Pursuant to the 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998 (the "Subsequent School Code Amendments") significant changes in the governance and management of the Board have been enacted, including the abolition of the Prior Board, the appointment of the Reform Board of Trustees, the appointment of central administrative officers and the suspension of the oversight powers of the Authority. For additional information, see "Reform Board of Trustees" and "Central Administration" above and "Chicago School Finance Authority" below.

The following summarizes certain additional changes made by the 1995 Amendatory Act and the Subsequent School Code Amendments. With the exception of the provisions relating to intervention and school accountability and the Inspector General, none of these changes are currently subject to a stated termination or expiration date.

Relationships with Employees and Employee Groups. The 1995 Amendatory Act made significant changes in the Board's relationships with its employees and its employee groups. First, the 1995 Amendatory Act prohibited certain subjects from collective bargaining, under the provisions of the Illinois Educational Labor Relations Act, between the Board and its employee groups, including, without limitation, decisions to reduce the work force, decisions to determine class size, class staffing, schedules and academic calendar hours, decisions to contract services performed by employees to third parties, and decisions to grant or deny a charter school. These provisions of the 1995 Amendatory Act apply only to the Board and to no other school districts in the State of Illinois. Finally, the 1995 Amendatory Act expanded the rights of the Board in the areas of discharge of tenured teachers and principals, teacher evaluation and remediation, evaluation and discipline of school engineers and food service personnel, filling of vacant positions, contracting with third parties for work and services previously performed by Board employees, and waiver of provisions of collective bargaining agreements.

Consolidation of Tax Levies. Tax levies for the building fund, playground fund, textbook fund, special education fund, agricultural science fund and teacher pension fund have been consolidated with the educational fund. In addition, the definition of "educational purposes" for which expenditures from the educational fund may be made has been expanded to include expenditures for all of the aforesaid purposes, for which separate levies had previously been authorized. The consolidated rate limit for the educational fund now equals 3.07%, or the sum of the separate rate limits for the building, special education, textbooks, playgrounds, agricultural science schools and teacher pension funds in place prior to the 1995 Amendatory Act (plus the difference between .50% and the rate percent of taxes extended to pay debt service on certain bonds issued by the Authority). For additional information, see "Chicago School Finance Authority -- Debt Obligations" below. Although this consolidation does not result in any overall increase in tax rate, it does provide significantly more flexibility to the Board in the allocation of monies among the stated educational purposes. For a summary of the separate tax levies by fund as they existed prior to the 1995 Amendatory Act, see the tables entitled "Real

Property Tax Rates by Board Fund” and “Board’s Statutory Tax Rate Limitations” in APPENDIX A -- Information Concerning the Real Property Tax System.

Accumulation of Funds for Future Years. The Subsequent School Code Amendments expressly authorize the Board to budget an accumulation of funds for use in future years for capital improvements or in order to achieve a balanced budget in future years. This change enhances the ability of the Board to incorporate long range planning into its budget process. The Board has currently allocated approximately \$196.3 million to future working capital expenditures pursuant to this authorization.

Chapter One State School Aid. The Board derives a portion of its State school aid from a weighting factor for low-income children (“Chapter One State School Aid”). Pursuant to prior amendments to the School Code, these funds were to be allocated, over a five-year phase-in period, to local schools in proportion to their enrollments of low-income children and used by the local schools only for programs which supplement the regular educational program. The 1995 Amendatory Act established a threshold amount of Chapter One State School Aid which the Board is required to allocate annually to local schools and further provided that any amounts above this threshold are not required to be allocated to local schools and may be used by the Board for any lawful purpose.

Consolidation of State Categorical School Aid. The Board receives a portion of its State school aid from various separately established State educational programs. Prior to the 1995 Amendatory Act, the Board received funds for each such program in accordance with a statutory formula and was required to allocate the funds received specifically for the applicable or related program. These categorical funding arrangements have been eliminated and the Board now receives two block grants for these various programs. The Board receives block grant funding in an amount equal to the total categorical funding it would have otherwise received. Consolidating these various categorical programs and permitting expenditures by the Board across program categories, relieves the Board of various administrative obligations associated with the categorical programs and permits the Board to realize overall expenditure reductions from prior levels for these programs.

Intervention and School Accountability. The Chief Executive Officer of the Board is given significantly expanded powers and responsibilities to monitor the performance of individual schools and to identify nonperforming schools. Schools identified as nonperforming, or otherwise determined to be in educational crisis, are subject to various forms of remediation and intervention by the Chief Executive Officer and the Board to address and correct educational and administrative deficiencies so identified. In addition, a Chicago Schools Academic Accountability Council has been established by the Reform Board of Trustees. Working with the Reform Board of Trustees and the Illinois State Board of Education (the “State Board”), this Council is required to develop and implement a comprehensive system of review, evaluation and analysis of school performance for all schools in the Chicago public school system.

The placement of underperforming schools on academic probation is a major initiative for which implementation began during the 1996-97 school year and which continues in the 1998-99 school year. This process is managed by the Department of School Intervention, which develops system-wide remediation and intervention plans, communicates the procedures to the schools and coordinates the development of corrective action plans. A wide range of plans have been developed and are being implemented according to the needs of each underperforming school. In general, intervention strategies address the school's present and anticipated needs as well as recent trends in student achievement.

Fiscal Year. Effective in fiscal year 1997, the Board's fiscal year changed from the period September 1 to August 31 to the period July 1 to June 30, which placed the Board on the same fiscal year used by the State and other school districts in the State.

Inspector General. Jurisdiction over the Office of the Inspector General was transferred from the Authority to the Board. The Inspector General is authorized to investigate allegations of fraud, mismanagement, and waste by any member of the Reform Board of Trustees, local school council member or any contractor or employee of the Board. The current Inspector General, Maribeth Vander Weele, was appointed on September 2, 1998 and her term expires on June 30, 2002.

1997 Education Funding and Reform Legislation. Public Act 90-548, effective December 4, 1997, made several important changes in the funding of elementary and secondary education in the State. Changes to the general State school aid formula increased the Board's fiscal year 1998 general operating revenues by approximately \$16 million and are expected to increase the Board's general operating revenues by approximately \$100 million annually for fiscal years 1999 through 2001. These increases are to be funded on a continuing basis, without the need for annual approval by the Illinois General Assembly. In addition, the weighting factor for low-income children described above under "-Chapter One State School Aid" is eliminated under this new State school aid formula.

Public Act 90-548 also establishes a new state-wide capital improvement program to support infrastructure and technology improvements. This program is designed (i) to fund approximately \$1.4 billion over a seven-year period through school construction and debt service grants to school districts throughout the State and (ii) to provide the Board with at least 20 percent of the school construction grants awarded each year, subject to compliance with various program requirements.

Public Act 90-548 also enacted a series of state-wide education reforms affecting all school districts, including the Board. These reforms include enhancing the requirements for teacher certification; mandating that all school districts develop policies to eliminate social promotion and to implement a "no-pass, no-play" policy (whereby students who fail to maintain minimum academic standards are prohibited from participation in athletic or extra-curricular activities); and clarifying the authority of school districts to enter into contracts with third parties to provide non-instructional services.

In January, 1998, a lawsuit was filed seeking, among other relief, an injunction against the collection of the various taxes that were increased to fund the new State school aid formula described above and a declaration that Public Act 90-548 is unconstitutional. The plaintiffs, several Illinois taxpayers as members of a purported class action, allege in their complaint that Public Act 90-548 violates several provisions of the Illinois Constitution. In April, 1998, a motion to dismiss this lawsuit was filed by the State Treasurer, the Director of the Illinois Department of Revenue and a telecommunications utility. This motion to dismiss is currently pending. The Board is not a party to this lawsuit.

Recent Financial Information Concerning the Board

For fiscal years 1996 through 1998, the first three fiscal years of governance by the Reform Board of Trustees, the Board adopted and achieved a balanced budget prepared in accordance with generally accepted accounting principles. In June, 1998, the Reform Board of Trustees adopted an operating budget for fiscal year 1999 totaling approximately \$3.2 billion. This budget was also balanced and prepared in accordance with generally accepted accounting principles. The fiscal year 1999 budget reflects the terms of collective bargaining agreements reached by the Reform Board of Trustees with the Board's employee groups described above. The fiscal year 1999 budget also reflects various cost savings from changes in student transportation policies, health-care plan changes and administrative staff reductions.

As part of its goal to continue to achieve a balanced budget, the Reform Board of Trustees has requested and the Board's administrative staff has developed a four-year balanced budget plan for fiscal years 1999 through 2002 as well as a five-year financial forecast for fiscal years 1999 through 2003. The Board intends to revise these financial planning documents periodically as required to reflect actual and projected revenues and expenditures, so as to help ensure that the Board achieves its goal of a balanced budget for every fiscal year.

The most recent audited general purpose financial statements are for the fiscal year ended June 30, 1997 and are included as APPENDIX D, including the auditor's report dated October 30, 1997, from Arthur Andersen LLP.

General Operating Funds
Summary of Resources and Appropriations
Budget Comparison Fiscal Years 1997, 1998 and 1999
(dollars in thousands)

	Fiscal Year 1997- <u>Actual(1)(2)</u>	Fiscal Year 1998-Final <u>Budget (1)</u>	Fiscal Year 1998-Year-End <u>Estimates (1)</u>	Fiscal Year 1999-Final <u>Budget (1)</u>
Beginning Fund Balance: Appropriable	<u>\$446,785</u>	<u>\$408,540</u>	<u>\$439,835</u>	<u>\$338,495</u>
Property Taxes	1,227,204	1,261,400	1,265,416	1,309,033
Replacement Taxes	118,858	123,900	128,200	130,400
Miscellaneous (3)	<u>89,055</u>	<u>62,100</u>	<u>59,500</u>	<u>69,680</u>
Total Local Revenue	<u>1,435,117</u>	<u>1,447,400</u>	<u>1,453,116</u>	<u>1,509,113</u>
General State Aid Basic (GSA)	190,753	309,495	308,839	424,500
GSA Chapter 1 Supplement	261,184	261,000	261,000	261,000
State Aid Pension	51,704	65,045	65,045	65,045
Other State Revenue	<u>289,918</u>	<u>355,558</u>	<u>346,956</u>	<u>384,685</u>
Total State Revenue	<u>793,558</u>	<u>991,098</u>	<u>981,840</u>	<u>1,135,230</u>
Federal Aid: ESEA Title 1	161,546	187,014	168,111	200,008
Lunchroom, Medicaid & Other	143,363	166,474	161,550	184,230
Public Law; Special Education	15,455	27,400	27,695	34,700
Federal Revenue - Other	<u>32,949</u>	<u>63,977</u>	<u>40,646</u>	<u>66,306</u>
Total Federal Revenue	<u>353,313</u>	<u>444,865</u>	<u>398,002</u>	<u>485,244</u>
Total Revenue	<u>2,581,988</u>	<u>2,883,363</u>	<u>2,832,959</u>	<u>3,129,587</u>
Total Resources	<u>3,028,773</u>	<u>3,291,903</u>	<u>3,272,794</u>	<u>3,468,082</u>
Teacher Salaries	1,286,463	1,416,790	1,423,994	1,491,173
Career Services Salaries	322,299	376,352	362,768	381,472
Other Employee Compensation	<u>344,087</u>	<u>389,349</u>	<u>366,116</u>	<u>388,440</u>
Total Employee Compensation	<u>1,952,849</u>	<u>2,182,492</u>	<u>2,152,878</u>	<u>2,261,085</u>
Commodities & Utilities	196,270	209,583	231,249	221,449
Services other than Personal	328,908	341,976	359,327	372,607
Educational Equipment	37,012	23,197	42,466	21,895
Building and Sites	9,419	6,317	60,933	6,085
Other Charges/Interfund Cost	5,680	219,224	19,531	233,035
Debt Service	<u>38,443</u>	<u>67,914</u>	<u>67,914</u>	<u>64,216</u>
Total Non-Compensation	<u>615,732</u>	<u>868,211</u>	<u>781,421</u>	<u>919,287</u>
Total Expenditures	<u>\$2,568,581</u>	<u>\$3,050,703</u>	<u>\$2,934,299</u>	<u>\$3,180,372</u>
Resources in excess of (Less Than) Appropriation	<u>\$460,192</u>	<u>241,200</u>	<u>338,495</u>	<u>287,710</u>
Net Change in reserve for encumbrances	(20,357)	0	0	0
Ending Fund Balance: Appropriable	<u>\$439,835</u>	<u>\$241,200</u>	<u>\$338,495</u>	<u>\$287,710</u>

- (1) The Board's fiscal year 1997 was for a ten month period from September 1, 1996 to June 30, 1997. The Board's fiscal years 1998 and 1999 are each twelve month periods, commencing on July 1 and ending on the following June 30. See "Recent Legislative Changes--Fiscal Year."
- (2) Based on actual results as reported in the Board's annual financial report.
- (3) Miscellaneous revenue includes investment income, other revenues and other financing sources.

**General Operating Fund Revenues, Expenditures, Other
Financing Sources and Changes in Fund Balances for the Board(1)(2)**

(amounts in thousands)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Revenues					
Property Taxes	\$1,150,914	\$1,152,685	\$1,192,649	\$1,187,627	\$1,227,204
Replacement Taxes	89,458	95,036	109,370	113,333	118,858
State Aid	830,088	764,556	811,585	840,807	793,558
Federal Aid	331,583	316,766	349,712	366,222	353,313
Investment Income	22,277	14,736	38,771	36,723	32,512
Other	<u>26,390</u>	<u>201,213</u>	<u>229,409</u>	<u>47,565</u>	<u>23,540</u>
Total Revenues	<u>\$2,450,710</u>	<u>\$2,544,992</u>	<u>\$2,731,496</u>	<u>\$2,592,277</u>	<u>\$2,548,985</u>
Expenditures					
Executive Administration	\$ 3,139	\$ 3,228	\$ 1,881	\$ 1,782	\$ 1,440
Instruction	1,474,156	1,472,074	1,545,891	1,545,009	1,544,327
Pupil Services	234,434	238,545	258,500	252,895	249,973
Support Services	499,490	489,718	534,132	515,586	447,832
Food Services	101,034	99,410	104,108	116,346	130,727
Community Services	47,641	46,902	48,179	51,288	34,084
Capital Outlay	16,507	27,351	53,611	70,955	49,998
General Charges	60,324			62,045	51,704
Teachers' Pensions		62,045	62,045		
Other	<u>8,484</u>	<u>10,207</u>	<u>15,178</u>	<u>19,488</u>	<u>58,496</u>
Total Expenditures	<u>\$2,445,209</u>	<u>\$2,449,480</u>	<u>\$2,623,525</u>	<u>\$2,635,394</u>	<u>\$2,568,581</u>
Revenues in Excess of (Less than Expenditures)	\$ 5,501	\$ 95,512	\$ 107,971	\$ (43,117)	\$ (19,596)
Other Financing Sources	<u>11,950</u>	<u>7,560</u>	<u>6,966</u>	<u>31,049</u>	<u>33,003</u>
Change in Fund Balance(Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	\$ 17,451	\$ 103,072	\$ 114,937	\$ (12,068)	\$ 13,407
Fund Balance, Beginning of Period	\$ 252,893	\$ 270,344	\$ 373,416	\$ 488,353	\$ 488,644
Residual Equity Transfer	<u>--</u>	<u>--</u>	<u>--</u>	<u>12,359</u>	<u>--</u>
Fund Balance, End of Period	<u>\$ 270,344</u>	<u>\$ 373,416</u>	<u>\$ 488,353</u>	<u>\$ 488,644</u>	<u>\$ 502,051</u>
Composition of Ending Fund Balance, End of Period					
Reserved for:					
Encumbrances	\$ 46,948	\$ 80,947	\$ 74,797	\$ 41,430	\$ 61,787
Operating Capital	100,000	100,000	--	--	--
State Chapter I (3)	36,848	41,396	24,798	20,270	27,198
Other	<u>8,432</u>	<u>9,941</u>	<u>9,974</u>	<u>86,581</u>	<u>125,138</u>
Total Reserved Fund Balance	\$ 192,228	\$ 232,284	\$ 109,569	\$ 148,281	\$ 214,123
Unreserved:					
Designated for 1995	--	24,000	--	--	--
Designated to Provide Operating Capital	--	--	276,544	268,200	216,100
Unreserved Undesignated Fund Balance (Available for Appropriation)	<u>\$ 78,116</u>	<u>\$ 117,132</u>	<u>\$ 102,240</u>	<u>\$ 72,163</u>	<u>\$ 71,828</u>
Total Fund Balance	<u>\$ 270,344</u>	<u>\$ 373,416</u>	<u>\$ 488,353</u>	<u>\$ 488,644</u>	<u>\$ 502,051</u>

- (1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting its Governmental Funds "APPENDIX D-- Audited Financial Statements For Fiscal year 1997 - Note (2)."
- (2) The Board's fiscal years 1993 through 1996 ended on August 31. The Board's fiscal year 1997 was for a ten month period commencing September 1, 1997 ending June 30, 1997. See "Legislative Changes-Fiscal Year."
- (3) Available for appropriation for certain restricted purposes. See "Legislative Changes -- Chapter One State School Aid."

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Prior Alternate Bonds and the Bonds, the Board's outstanding long-term debt consists of approximately \$596 million aggregate principal amount of leases with the PBC and \$23.5 million of Certificates of Participation (as described below). The lease rentals due to the PBC are supported by separate unlimited property tax levies of the Board. For additional information on these PBC lease rentals, see "OTHER LOCAL GOVERNMENT UNITS -- Certain Other Public Bodies -- The Public Building Commission of Chicago." To provide for payment of these lease rental obligations to the PBC, 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 its existing PBC lease obligations. Tax receipts of the Board attributable to the Board's PBC lease rentals 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 PBC lease obligations when due. Investment income on deposits in the fund accounts established to make PBC lease payments is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

Certificates of Participation. In December, 1995, \$45 million in aggregate principal amount of certificates of participation were issued, representing fractionalized ownership interests in certain general obligation installment payments to be made by the Board (the "Certificates"). Of this amount, approximately \$23.5 million remains outstanding; however, funds representing principal payments of approximately \$11.5 million and interest due on the Certificates in 1998 have been deposited with the escrow agent for the Certificates. The Certificates were issued to pay the Board's cost of acquisition of various items of personal property, generally consisting of: equipment; technology and computer hardware, software and related services; and textbooks, all for the benefit of the Chicago public schools. The acquisition of these items of personal property is not part of the Board's Capital Improvement Program. The Board's obligation to make the installment payments which will be used in turn to pay the amounts coming due on the Certificates is a general obligation of the Board, payable from any funds legally available therefor, and secured by the first proceeds collected of the taxes levied by the Board for educational purposes and not by the levy of separate or special *ad valorem* property taxes, unlimited as to rate or amount. The unpaid principal component of the Certificates is payable in 1998 and 1999.

Board's Debt Service Schedule⁽¹⁾

Calendar Year	Prior Alternate Bonds	The Bonds	PBC Lease Obligations ⁽²⁾	Certificates of Participation	Total Amount Debt Service
1998 ⁽³⁾	\$ 35,650,948	\$ -----	\$ 51,687,533	\$ 12,552,250	\$ 99,890,731
1999	54,211,818	-----	51,718,533	12,552,000	118,482,351
2000	54,210,000	-----	51,715,528	-----	105,925,528
2001	59,489,000	-----	51,745,848	-----	111,234,848
2002	67,489,000	-----	51,783,838	-----	119,272,838
2003	83,772,000	-----	51,834,588	-----	135,606,588
2004	83,760,000	-----	51,863,450	-----	135,623,450
2005	83,782,000	-----	51,572,450	-----	135,354,450
2006	83,780,000	-----	51,990,050	-----	135,770,050
2007	83,766,000	-----	52,037,000	-----	135,803,000
2008	83,787,000	-----	52,096,838	-----	135,883,838
2009	90,833,000	29,360,000	52,103,825	-----	172,296,825
2010	90,823,000	29,365,000	52,163,338	-----	172,351,338
2011	120,045,000 ⁽⁴⁾	14,145,000	52,232,025	-----	186,422,025 ⁽⁴⁾
2012	106,105,000	20,400,000	52,318,625	-----	178,823,625
2013	106,070,000	20,400,000	52,359,513	-----	178,829,513
2014	106,071,000	20,400,000	52,430,550	-----	178,901,550
2015	106,089,000	20,400,000	52,467,613	-----	178,956,613
2016	106,061,000	20,400,000	52,519,550	-----	178,980,550
2017	106,028,000	20,400,000	52,600,125	-----	178,028,125
2018	106,059,000	20,400,000	52,664,600	-----	179,123,600
2019	106,088,000	41,900,000	30,635,500	-----	178,623,500
2020	113,554,000	64,300,000	-----	-----	177,854,000
2021	113,534,000	64,300,000	-----	-----	177,834,000
2022	113,535,000	64,300,000	-----	-----	177,835,000
2023	118,733,000	59,000,000	-----	-----	177,733,000
2024	118,749,000	59,000,000	-----	-----	177,749,000
2025	118,645,000	59,000,000	-----	-----	177,645,000
2026	118,714,000	59,000,000	-----	-----	177,714,000
2027	118,775,000	59,000,000	-----	-----	177,775,000
2028	52,186,000	100,000,000	-----	-----	152,186,000
2029	52,186,000	100,000,000	-----	-----	152,186,000
2030	52,188,000	100,000,000	-----	-----	152,188,000
2031	-----	100,000,000	-----	-----	100,000,000
	<u>\$ 3,014,768,766</u>	<u>\$ 1,145,470,000</u>	<u>\$ 1,124,540,920</u>	<u>\$ 25,104,250</u>	<u>\$ 5,309,883,936</u>

- (1) Includes both principal and interest components.
- (2) PBC debt service for each year includes principal and interest due on the following January 1.
- (3) All debt service payable in 1998 has either been paid or moneys to make required payments have been deposited with applicable trustees or paying agents.
- (4) Reflects the issuance of the Series 1998 Bonds (maturing in 2011 in the aggregate principal amount of \$14 million). See "INTRODUCTION -- Prior Alternate Bonds."

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 D -- Fiscal Year 1997 Audited Financial Statements -- Note (10)." 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 (i) the actuarially determined value of the assets of the Pension Fund to (ii) its actuarially determined accrued liabilities (or "Funded Ratio") to equal 90% by fiscal year 2045. As of August 31, 1997, the end of the last fiscal year of the Pension Fund for which audited financial information is available, the Funded Ratio for the Pension Fund, based on a four year "smoothed" (effectively, an average) market value method of valuing assets, was 99.7% and based on current market value was 112%.

The Subsequent School Code Amendments: (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 has not provided for any contributions to the Pension Fund from local resources in its fiscal year 1999 budget and the Board does not anticipate being required to make any such contribution through at least fiscal year 2004. Contributions to the Pension Fund that are funded by state categorical revenues for teacher pension and by federal categorical programs will continue as before.

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

Debt Management Policy

To help ensure the Board's creditworthiness, the Board adopted the Chicago Public Schools Debt Management Policy (the "Debt Policy") on October 23, 1996. The purpose of the Debt Policy is to provide a functional tool for debt management and capital planning and to enhance the Board's ability to manage its debt in a conservative and prudent manner. In issuing the Bonds and any future debt, the Board will consider a number of factors, including the duration of the debt in relation to the economic life of the improvement or asset that the issue is financing, negotiated and competitive methods of sale, products and conditions in both domestic and international markets, credit enhancement agreements, the potential impact of debt service on the operating budget, statutory debt limitations, and credit implications. The Board also believes it should avoid financing general operating costs from debt having maturities greater than one year. A copy of the Debt Policy is available from the Board upon request to the Treasurer of the Board at (773) 535-8790. 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 the Chicago Public Schools 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, maximizing rate of return and will not impair the public confidence in the Chicago Public Schools. The Investment Policy specifically prohibits any purchase of financial forward contracts or futures, any leverage investment lending securities and any collateralized mortgage obligations. The Investment Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds subject, in all respects, to the provisions of the Public Funds Investment Act of the State of Illinois, as amended. A copy of the Investment Policy is available from the Board upon request to the Treasurer of the Board at (773) 535-8790. 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.

Year 2000 Compliance

The Year 2000 Problem is a phrase used to describe anticipated computer malfunctions caused by the fact that many computer programs use two digits rather than four digits to define the applicable year. The fundamental Year 2000 Problem is that the two character date fields and date calculation logic in some existing computer program applications were not designed to handle dates beyond December 31, 1999. For example, such computer programs may recognize a date containing "00" as the year 1900 rather than the year 2000. Such a mistake could lead to computer system failures or miscalculations causing disruption of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other routine activities. The Year 2000 Problem affects mainframe computer systems, computer client server applications and also certain other hardware and equipment utilizing date-sensitive data.

The Board has performed an extensive review to attempt to identify all of its internal computer-dependent systems that are critical to the Board's operations and finances. The Board believes that all such systems have been identified and the Board has adopted a program to have all critical systems Year 2000 compliant by January, 1999. The Board believes this goal is achievable and is currently conducting a progress review of its Year 2000 compliance program. Depending on the results of its progress review, the Board intends to address and develop any necessary Year 2000 contingency plans for critical business processes. The Year 2000 Problem, if not successfully remediated, can lead to computer system failures or miscalculations which could materially disrupt critical functions of the Board, including an inability to process entries and transactions in accounts payable, payroll and human resources, accounts receivable, purchasing, general accounting, student information and other functions. This could lead to the corruption of essential data files; and possibly to the shut-down of key business processes.

Based upon current estimates, the Board believes it will incur costs of approximately \$4.5 million to assess and implement changes in its current computer processing systems on Year 2000 issues, and the Board has allocated this amount in its budgets for its 1998 and 1999 fiscal years. As of September, 1998, approximately \$1.4 million of such costs already have been incurred. In certain instances the Board may determine that replacement of some existing computers or other equipment or systems may be more effective and efficient, but any such replacements are not expected to reduce the estimated 1998 and 1999 expense referred to above associated with the Year 2000 Problem.

The Board also relies upon external computer systems, such as those of other governments and private parties, including, but not limited to, the State, the City, Cook County (the "County"), the Escrow Agent, the Trustee and others for collection, transfer and payment of the Pledged Revenues and the Pledged Taxes and for payments on behalf of the Board with respect to principal of and interest on its debt obligations, including the Bonds. The Board has been informed by the State, the City, the County, the Escrow Agent and the Trustee that each has adopted a program to provide Year 2000 compliance and that money has been set aside for that purpose.

There are no assurances, however, that the computer systems upon which the Board directly or indirectly relies for its operations and for the collection, transfer and payment of the Pledged Revenues and Pledged Taxes and for payments with respect to its debt obligations, including the Bonds, will be timely or correctly modified or converted to address the Year 2000 Problem. If the Year 2000 Problem is not successfully addressed, there could be an interruption in the collection, transfer or payment of Pledged Revenues and/or the Pledged Taxes or procedures for paying the Bonds, or a material disruption of the operations of the Board until such Year 2000 Problem is remedied.

The Board has recently hired its first Chief Information Officer who will be responsible for resolving Year 2000 issues currently confronting the Chicago Public Schools and also for improving the use of management information resources in the delivery of educational and support services.

Chicago School Finance Authority

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 Authority. The Authority is governed by a five-member board of directors: two directors are appointed by the Mayor with the approval of the Governor; two directors are appointed by the Governor with the approval of the Mayor; the Chairman is appointed jointly by the Governor and the Mayor. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The final payment of principal and interest on the outstanding bonds issued by the Authority is scheduled to occur in calendar year 2009.

Financial Oversight and Control Powers. Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise the following financial oversight and control powers with respect to the Board: approval or rejection of the Board's annual budget; the requirement that the Board's annual budget be balanced in accordance with an accounting system and procedures approved by the Authority; annual approval and rejection of the Board's two-year financial plans; review and approval of the revenue estimates upon which the Board's annual budget and multi-year financial plans are based; determining that all Board contracts and other obligations are consistent with the budget and financial plan then in effect; approval of the Board's annual staffing plans, with the requirement that no hiring or appointment of any employee of the Board shall be effective until it is consistent with an approved staffing plan; appointment of an independent Inspector General who shall have the authority to conduct investigations into allegations of fraud, waste and financial mismanagement by employees and contractors of the Board; undertaking a management audit of the Board and its operations at least once every two years to determine if the Board is utilizing and managing its resources in an economical and efficient manner; approving the appointment of the Board's chief financial officer, with the power to remove such officer; prescribing an accounting system and procedures for the Board's annual budget; approving the certified public accountants appointed by the Board to audit its annual financial statements; examining the business records and auditing the accounts of the Board and directing the Board to reorganize its financial accounts and management system; and assuming exclusive administration of the Board's cash accounts, including to withdraw funds for lawful expenditures of 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. Pursuant to Public Act 90-757, which became effective August 14, 1998, the suspension of these oversight and control powers has been extended until July 1, 2004.

Debt Obligations. Since 1980, the Authority has issued \$1,092,880,000 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 D -- Fiscal Year 1997 Audited Financial Statements - 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, \$693,540,000 of the Authority's bonds are outstanding, net of bonds defeased. As of the date of this Official Statement, the Authority has no authority to issue bonds other than to refund outstanding bonds. 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 "SECURITY FOR THE BONDS--The Intergovernmental Agreement Revenues--Levy of Intergovernmental Agreement Revenues" and "Board Statutory Tax Rate Limitations" under "APPENDIX A--Information Concerning The Real Property Tax System."

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are eight major units of local government, 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 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 and the Authority, see "THE 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 seventeen Commissioners, each elected at-large for four-year terms from one of seventeen 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 Authority share, in varying degrees, a common property tax base with the Board. See "APPENDIX A -- Information Concerning The Real Property Tax System -- Direct And Overlapping Debt." 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.

Certain Other Public Bodies

Certain 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 "APPENDIX A -- Information Concerning The Real Property Tax System -- Direct And Overlapping Debt."

The Mayor, also one of the members of the PBC, appoints six of the 10 additional members of the PBC. Currently, the President of the Reform 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. For additional information, see "SECURITY FOR THE BONDS - The Intergovernmental Agreement Revenues -- Levy of Intergovernmental Agreement Revenues."

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

The Regional Transportation Authority (the "RTA") is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county area of northeastern Illinois, including Cook County. These include the CTA, METRA, the suburban rail division, and PACE, the suburban bus division. The RTA is governed by a 13-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail sales in the six-county area, and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

The Metropolitan Pier and Exposition Authority (the "MPEA") is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and Navy Pier. MPEA has recently redeveloped Navy Pier and completed an expansion of McCormick Place. MPEA has previously issued revenue bonds to finance its projects. MPEA is governed by a thirteen-member board, seven of whom are appointed by the Governor, with the approval of the State Senate, and six of whom are appointed by the Mayor. The Chairman of MPEA is appointed by the Mayor, with the approval of the Governor, and 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.

GLOBAL BOOK-ENTRY FORM OF OWNERSHIP

The information in this Section concerning DTC and the DTC book-entry system has been obtained from sources the Board and the Underwriters believe to be reliable, but neither the Board nor the Underwriters take responsibility for the accuracy or completeness thereof.

The Bonds will be issued as fully-registered bonds in the name of Cede & Co. ("Cede"), as nominee of The Depository Trust Company, New York, New York, as registered owner of

the Bonds. Purchasers of such Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement, so long as all of the Bonds are immobilized in the custody of DTC, references to Bondowners or Owners shall mean DTC or its nominee.

DTC will act as securities depository for the Bonds. One fully-registered Bond certificate will be issued for the Bonds in the aggregate principal amount of each 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. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., 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 and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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 (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede. The deposit of Bonds with DTC and their registration in the name of Cede effect no 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of 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, tenders, defaults and proposed amendments to the Indenture and the Escrow Agreement. 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 Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustees as soon as possible after the record date. The Omnibus Proxy assigns Cede'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).

Payments of Compound Accreted Value on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Compound Accreted Value to DTC is the responsibility of the Trustee and the Board, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

NEITHER THE BOARD NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE COMPOUND ACCRETED VALUE OF THE BONDS, ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE OR OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

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, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be required to be printed and delivered as described in the Indenture.

The Indenture provides that, in the event that (a) the Board determines that DTC is incapable of discharging its responsibilities described herein and in the DTC representation letter, (b) the DTC representation letter shall be terminated for any reason or (c) the Board determines that it is in the best interest of the Beneficial Owners of the Bonds that they are able to obtain certified Bonds, the Board shall notify DTC of the availability through the Trustee of Bond certificates and the Bonds shall no longer be restricted to being registered in the name of Cede, as nominee of DTC. At that time, the Board may determine that the Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, as may be acceptable to the Board, or such depository's agent or designee, and if the Board does not select such an alternate securities depository system then the Bonds may be registered in whatever name or names registered owners of Bonds transferring or exchanging Bonds shall designate, in accordance with the provisions of the Indenture. (For purposes of this Official Statement, at any time after replacement Bonds have been issued, references to Bondowners mean the registered owners of such replacement Bonds and references to such Bonds mean such replacement Bonds.)

Year 2000 Issues. DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to bondholders, book-entry deliveries, and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be complete within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including, but not limited to issues and their agents, as well as third-party vendors from whom DTC licenses software and hardware, and third-party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third-party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent

of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

TAX EXEMPTION

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

Subject to the Board's compliance with the above-referenced covenants, under present law, in the separate opinions of Co-Bond Counsel, interest on the Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the Board with respect to certain material facts solely within the Board's knowledge relating to the application of the proceeds of the Bonds.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICs and FASITs) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax-exempt interest, including interest on the Bonds.

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

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

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

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

ORIGINAL ISSUE DISCOUNT

The initial public offering price of each maturity of the Bonds is less than the principal amount payable at maturity. The difference between the Issue Price (defined below) of each maturity of the Bonds and the amount payable at maturity is original issue discount. The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity is first sold to the public. The Issue Price of each maturity of the Bonds is expected to be the amount set forth on the inside cover page hereof, but is subject to change based on actual sales.

For an investor who purchases a Bond in the initial public offering at the Issue Price for such maturity and who holds such Bond to its stated maturity, subject to the condition that the Board complies with the covenants discussed under "Tax Exemption" above, (a) the full amount of original issue discount with respect to such Bond constitutes interest which is not includible in the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such Bond at its stated

maturity; (c) such original issue discount is not included as an item of tax preference in computing an adjustment used in determining the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year.

If a Bond is purchased at any time for a price that is less than the Bond's Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased such Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Such treatment would apply to any purchaser who purchases such Bond for a price that is less than its Revised Issue Price.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such Bonds.

RATINGS

Moody's Investors Services ("Moody's") has assigned ratings of "Baa1" and "Aaa" to the Bonds. Fitch Investors Service, Inc. ("Fitch") has assigned ratings of "A-" and "AAA" to the Bonds. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned ratings of "A-" and "AAA" to the Bonds. For each rating agency, the first rating described above refers to the underlying rating of the Bonds, without bond insurance or other credit enhancement, and the second rating is based on the Policy to be issued by Financial Guaranty.

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.

FINANCIAL STATEMENTS

The financial statements of the Board as of and for the fiscal year ended June 30, 1997, included in APPENDIX D to this Official Statement, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report included in APPENDIX D.

FINANCIAL ADVISORS

The Board has engaged Austin Meade Financial Ltd. and A.C. Advisory, Inc. 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

The Underwriters have jointly and severally agreed to purchase the Bonds at an aggregate purchase price of \$326,474,314.01 (which represents an underwriters' discount of \$2,240,050.24). The Bonds will be offered to the public initially at the offering price or yields set forth on the inside cover page of this Official Statement. 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 change in its conditions (financial or otherwise) from that set forth in this Official Statement.

The Underwriters may offer and sell the Bonds to certain dealers, including dealer banks and dealers depositing tax-exempt obligations into investment trusts, and others at prices lower or yields higher than the public offering prices or yields stated on the inside cover page of this Official Statement. The initial public offering prices or yields may be changed from time to time by the Underwriters.

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinions of Chapman and Cutler, Chicago, Illinois, and Albert, Whitehead & McGaugh, P.C., Chicago, Illinois, as Co-Bond Counsel. The proposed form of Co-Bond Counsel opinion is included herein as APPENDIX F. Certain legal matters will be passed upon for the Board by Marilyn F. Johnson, General Counsel, and by Katten Muchin & Zavis, Chicago, Illinois; and for the

Underwriters by their Co-Counsel, Mayer, Brown & Platt, Chicago, Illinois and Burke, Burns & Pinelli, Ltd., Chicago, Illinois.

LITIGATION

General

The Board is involved in numerous lawsuits which 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 "Property Tax Extension Limitation Law; Issuance of Alternate Bonds" under "APPENDIX A -- Information Concerning The Real Property Tax System."

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.

Pension Funding Litigation

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

interest." The Fund, however, contends that the payments for military service credits including the employer's normal cost of benefits are employee contributions, totaling \$1,633,476 and \$17,122 in fiscal years 1992 and 1993.

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

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

Chapter One State School Aid Litigation

Conception Noyola, et al. v. The Chicago Board of Education, et al. was filed as a class action lawsuit in 1988 against the Board, the State Board and others. The suit was filed on behalf of the economically disadvantaged students, parents and other similarly situated individuals, as well as an educational advocacy group. The plaintiffs allege that over a 15-year period, the Board received in excess of \$2 billion in State Chapter One School Aid that was earmarked for low-income children, but was instead illegally spent to cover other costs of the Board and for programs not directly related to serving the needs of low-income children. Plaintiffs seek declaratory and prospective injunctive relief, including an order directing the Board to allocate an unspecified amount of funds over and above the current level of State Chapter One School Aid allocation, to remedy the alleged prior underfunding. Consequently, an adverse decision against the Board could include substantial monetary relief.

Initially, the Board challenged the standing of the plaintiffs to bring this action and the Board's position was sustained by the Circuit Court of Cook County. On appeal, however, the Circuit Court decision was reversed by the Illinois Appellate Court and the case was remanded to the Circuit Court for further proceedings. The plaintiffs' amended complaint was again dismissed, with the Circuit Court finding that plaintiffs did not have a private right of action under the School Code. The plaintiffs again appealed and in September, 1996, the Appellate Court reversed the dismissal of the complaint and held that a private right of action was available under the relevant provisions of the School Code. In January, 1997, the Illinois Supreme Court granted petitions for leave to appeal filed by the Board and the State Board seeking to overturn the ruling of the Appellate Court.

On October 23, 1997, the Illinois Supreme Court affirmed the ruling of the Appellate Court on the basis that plaintiffs were entitled to bring a mandamus action against the Board to compel appropriate allocation of State Chapter One School Aid.

Based upon this ruling, plaintiffs filed a nine-count Third Amended Complaint on April 23, 1998. Count II seeks a writ of mandamus. The remaining counts are: (1) a state due process claim; (2) a federal due process claim; (3) a Section 1983 claim; (4) a claim under the Illinois Administrative Procedure Act; and claims for (5) an accounting; (6) prejudgment interest; (7) constructive trust; and (8) restitution.

The Board filed a motion to dismiss the Third Amended Complaint, asserting that the "law of the case" doctrine bars plaintiffs from proceeding to obtain any relief other than under a writ of mandamus. The State Board also filed a substantially similar motion to dismiss. On September 1, 1998, the Circuit Court granted the Board's motion to dismiss, ruling that plaintiffs can proceed only on their request for the issuance of the writ of mandamus specifically authorized by the Illinois Supreme Court. The Court also granted the State Board's motion to dismiss all counts of the Third Amended Complaint except the mandamus count.

Neither the Board nor its counsel is able to predict the eventual outcome of this litigation. However, the Board denies any wrongdoing and believes that during the period in question its application of State Chapter One School Aid was in accordance with state law then in effect.

CONTINUING DISCLOSURE

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 information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under "THE UNDERTAKING"

The Board is in compliance with each and every undertaking 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 Resolution or the Indenture and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. See "THE UNDERTAKING -- Consequences of Failure of the Board to Provide Information." 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 a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

THE UNDERTAKING

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

Annual Financial Information Disclosure

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

"Annual Financial Information" means historical information generally consistent with the tables contained in APPENDICES A and B and information of the type set forth in this Official Statement under the following headings:

THE BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System

General Operating Funds Summary of Resources and Appropriations, Budget Comparison Fiscal Years 1997, 1998 and 1999

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

Board's Debt Service Schedule

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

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

Events Notification; Material Events Disclosure

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

In the event of a failure of the Board to comply with any provision of the Undertaking, the Beneficial Owner of any Bond may seek mandamus or specific performance by court order to cause compliance with the obligations under the Undertaking. The Undertaking provides that any court action must be initiated in the Circuit Court of Cook County, Illinois. A default under the Undertaking shall not be deemed an event of default under the Resolution or the Indenture, and the sole remedy in the event of any failure of the Board to comply with the Undertaking shall be an action to compel performance. A failure by the Board to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 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 co-bond counsel), or by the approving vote of the owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment; or

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

Termination of Undertakings

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

Additional Information

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

Dissemination Agent

The 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.

CHICAGO SCHOOL REFORM BOARD OF
TRUSTEES OF THE BOARD OF EDUCATION
OF THE CITY OF CHICAGO, ILLINOIS

By: /s/ Kenneth C. Gotsch
Chief Fiscal Officer

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APPENDIX A

Information Concerning The Real Property Tax System

Real Property Assessment, Tax Levy and Collection Procedures

General. As described under "SECURITY FOR THE BONDS -- Intergovernmental Agreement Revenues," the Intergovernmental Agreement Revenues will be derived from the proceeds of ad valorem taxes levied by the City on all taxable property within the City. 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. The boundaries of the School District are coterminous with those of the City and the School District and the City, share the same property tax base.

Substantially all (approximately 99.98%) of the "Equalized Assessed Valuation" (described below) of taxable real property in the City and 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 Appendix and elsewhere in this Official Statement with respect to taxable property of the City and 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 (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 1997; suburbs in the northern and northwestern portions of the County were reassessed in 1998; and suburbs in the west and southern portions of the County will be reassessed in 1999.

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

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment through a process that has been modified as the result of recently enacted amendments to the Property Tax Code (the "Property Tax Code Amendments"). Prior to January 1, 1996, a taxpayer generally was required to seek a review of its assessment by

filing a complaint with the Cook County Board of Appeals, from which there was generally no further appeal. However, pursuant to the Amendments, the Cook County Board of Appeals will be replaced on the first Monday in December 1998 by a Board of Review with three members to be elected by the voters of the County at the General Election in November, 1998. The Board of Review will have powers similar to, but somewhat broader than, those previously vested in the Board of Appeals to review and adjust Assessed Valuations set by the Assessor. The Board of Appeals will remain in existence until it is replaced by the Board of Review in December 1998.

The Property Tax Code Amendments also provide that, beginning with assessments for the year 1996, owners of residential property having six or fewer units are able to appeal decisions of the Board of Appeals or the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a state-wide administrative body. Owners of real estate other than residential property with six or fewer units will be able to appeal Assessed Valuations to the PTAB beginning in 1997. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. 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.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Appeals or Board of Review may file an Objection in the Circuit Court of Cook County similar to the previous judicial review procedure but with a different standard of proof than that previously required. 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.

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 Appeals or 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 to the statutory requirement of 33-1/3 percent of estimated fair cash value. Adjustments in Assessed Valuation made by the PTAB or the courts are not reflected in the Equalization Factor. The Assessed Valuation of each parcel of real estate in the County is multiplied by the County's Equalization Factor to determine the parcel's equalized assessed valuation (the "Equalized Assessed Valuation").

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following

year. The Equalization Factors for the ten years ended December 31, 1997 are listed in this APPENDIX in the table captioned "Property Tax Information."

In 1991, legislation was enacted by the State which provided that for 1992 and for subsequent years' tax levies, 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" below.

Exemptions. The annual homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of \$4,500. Additional exemptions exist for (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by \$2,500, and (ii) disabled veterans, with the Assessor authorized annually to exempt up to \$50,000 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 owners of single family residences to make certain home improvements without increasing the Assessed Valuation of their property for at least four years. Through December 31, 1997, the amount of this exemption was limited to \$30,000. Effective January 1, 1998, the amount of this exemption will be increased to \$45,000. 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 \$35,000 or less. Certain property is also exempt from taxation on the basis of ownership and/or use.

Additionally, since 1996 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. The County has not established such a property tax exemption. However, if the County were in the future to provide for such a property tax exemption, the Board would be required to participate in the program.

Tax Levy. There are over 800 units of local government (the "Units") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the County are the Board, the City, the Chicago Park District, the Authority, Community College District No. 508, the Metropolitan Water Reclamation District of Greater Chicago, 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 for 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.

Truth in Taxation Law. The Truth in Taxation Law, contained within the Property Tax Code, imposes procedural limitations on a Unit's real estate taxing powers and requires that notice in prescribed form must be published if the aggregate annual levy is estimated to exceed 105 percent of the levy of the preceding year, exclusive of levies for debt service, levies made for the purpose of paying amounts due under public building commission leases and election costs. 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 annual levy. No amount in excess of 105 percent 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 certification of compliance with the foregoing procedures.

As of the date of this Official Statement, the City and the Board are each in compliance with the Truth in Taxation Law. The taxes levied by the City pursuant to the Intergovernmental Agreement will be included in the City's aggregate annual levy which is subject to the notice and hearing provisions of the Truth in Taxation Law. However, the Pledged Taxes will not be included in the Board's aggregate annual levy and will not be subject to the notice and hearing provision of the Truth in Taxation Law.

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. Taxes on railroad real property used for transportation purposes are payable in one lump sum on the

same date as the second installment. Other than as described below, for the last ten years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) was no later than September 25. The second installment "penalty date" for 1994 taxes was November 3, 1995 because of delays experienced in the assessment process. The second installment "penalty date" for the 1997 taxes will be October 28, 1998 because of changes to the assessment appeal process described above. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays similar to those experienced in 1995 and 1998 in the preparation and mailing of second installment tax bills in future years.

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

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

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited and are eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes and interest 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. The Scavenger Sale is scheduled to be held every two years on all property on which two or more years' taxes are delinquent. 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

On February 12, 1995, Public Act 89-1 extended the provisions of 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, to non-home

rule taxing districts in Cook County, including the Board. The Limitation Law does not apply to home rule units such as the City. 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: (i) 5% for taxes extended in 1995 and (ii) the lesser of 5% or the percentage increase in the Consumer Price Index for All Urban Consumers during the calendar year preceding the relevant levy year for taxes extended in years after 1995. Generally, extensions can be increased beyond this limitation only due to increases in the equalized assessed value attributable to new construction and referendum approval of tax or limitation rate increases.

Although the extension limitations contained in the Limitation Law upon its original enactment in 1991 did not apply to the Board, the Limitation Law as originally enacted 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. Public Act 89-1 retains this requirement.

In 1995, the provisions of the Limitation Law were amended to (i) authorize the issuance of "limited bonds" payable from non-home rule taxing districts' "debt service extension base"; and (ii) to exclude 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 and the Prior Alternate Bonds and the Series 1998 Bonds were issued as alternate bonds. (For additional information, see "PLAN OF FINANCE -- Prior Alternate Bonds" and "-- Issuance of Additional Bonds.") The extension and collection of the Intergovernmental Agreement Revenues and 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, as amended.

City Property Tax Limitation Ordinance

In 1993, the City adopted an ordinance (the "Tax Limitation Ordinance") limiting the City's aggregate property tax levy to an amount equal to the prior year's aggregate property tax levy (subject to certain adjustments) plus the lesser of (a) five percent or (b) the percentage increase in the annualized Consumer Price Index for all urban consumers for all items, as published by the United States Department of Labor. The Tax Limitation Ordinance provides a safe harbor for that portion of any property tax debt service levy equal to the amount of the aggregate interest and principal payments on the City's general obligation bonds and notes during the 12-month period ended January 1, 1994, subject to annual increase in the manner described above for the aggregate levy. Additional safe harbors were provided for portions of any levy attributable to payments under installment contracts or PBC leases or attributable to payments

due as a result of the refunding of general obligation bonds or notes or of such installment contracts or leases. In connection with the authorization of the Intergovernmental Agreement, the City amended the Tax Limitation Ordinance to exclude the taxes levied pursuant to the Intergovernmental Agreement from the provisions of the Tax Limitation Ordinance. For additional information, see "SECURITY FOR THE BONDS -- Intergovernmental Revenues -- Levy of Taxes Providing Intergovernmental Agreement Revenues."

Bond Issuance Notification Act

The Bond Issuance Notification Act of the State of Illinois (the "Bond Issuance 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. On October 6, 1997, pursuant to properly published notice, the Board held the hearing required by the Bond Issuance Notification Act with respect to all Bonds issued under the 1997 Authorization, including the Bonds.

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 1988-1997
(Dollars in thousands)

Tax Year <u>Levy</u>	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)				
1988	\$4,117,818	\$1,696,297	\$5,882,020	\$252,944	1.9266	\$21,697,922	\$67,031,890	32.37%
1989	4,158,390	1,668,250	5,964,607	263,347	1.9133	21,711,267	68,825,425	31.55
1990	4,195,911	1,655,147	6,180,101	275,548	1.9946	23,104,106	82,394,157	28.04
1991	5,050,863	1,903,917	7,048,501	392,113	2.0523	27,397,830	91,031,582	30.10
1992	5,073,399	1,896,807	7,121,862	355,820	2.0897	27,964,128	94,361,550	29.64
1993	5,095,776	1,878,201	7,135,798	250,349	2.1407	28,661,954	94,219,759	30.42
1994	5,701,638	2,016,367	7,357,679	244,451	2.1135	30,090,355	94,181,737	31.95
1995	5,769,559	1,979,007	7,374,840	241,356	2.1243	30,381,480	97,291,356	31.23
1996	5,843,068	1,930,178	7,338,644	255,507	2.1517	30,765,001	100,460,113	30.62
1997	6,554,717	2,077,044	7,809,485	262,033	2.1489	33,349,557	106,282,207	31.38

- (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.
- (4) Source: The Civic Federation. Excludes railroad property.
- (5) Residential, six units and under.
- (6) Residential, seven units and over and mixed-use.
- (7) Industrial/Commercial.
- (8) Vacant, not-for profit and industrial/commercial incentive classes.

Board's Property Tax Extensions and Collections⁽¹⁾
(Dollars in Thousands)

Levy Year ⁽³⁾	<u>Extension</u>	<u>First Year Collections</u>		<u>Cumulative Collections</u> ⁽²⁾	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1988	\$818,641	\$781,391	95.4%	\$785,144	95.9%
1989	887,656	842,365	94.9	863,902	97.3
1990	981,072	931,652	95.0	958,430	97.7
1991	1,156,728	1,085,820	93.9	1,131,727	97.8
1992	1,193,352	1,145,125	96.0	1,171,150	98.1
1993	1,239,056	1,193,613	96.3	1,218,688	98.4
1994	1,253,865	1,189,147	94.9	1,235,778	98.6
1995	1,291,517	1,240,528	96.1	1,271,345	98.4
1996	1,331,437	1,293,278	97.1	1,314,217	98.7
1997	1,361,996	618,836 ⁽²⁾	45.4	618,836	45.4

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- (1) Percentages of tax levies collected for the City are comparable to the applicable percentages shown for the Board, excluding any refunds paid pursuant to the resolution of tax objection lawsuits.
 - (2) Reflects collections through June 30, 1998. As described above under "Collection," the second installment "penalty date" for 1997 taxes will be October 28, 1998.
 - (3) Year of extension is the year after the year of levy.

Source: Board of Education of the City of Chicago.

Real Property Tax Rates by Board Fund
(per \$100 equalized assessed valuation)

<u>Fund</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Educational	2.110	2.110	2.417*	2.427*	2.405*	2.444*	2.262*	3.196*	3.202*	2.998
Special Education	.040	.040	.040	.040	.039	.039	.038	--	--	--
School District Medicare	.011	.016	.018	.024	.027	.028	.030	.034	.023	.021
Agricultural Science	--	.013	.013	.011	.011	.003	.008	--	--	--
Building	.660	.725	.450	.450	.441	.439	.429	--	--	--
Playground and Recreational	.080	.080	.080	.080	.078	.078	.076	--	--	--
Textbook	.110	.110	.110	.110	.108	.107	.105	--	--	--
Workers' and Unemployment Compensation Tort Immunity	.141	.163	.206	.201	.197	.207	.229	.254	.222	.246
Teachers' Pension	.260	.271	.260	.260	.255	.254	.248	--	--	--
PBC Operation and Maintenance	.128	.315	.420	.425	.516	.538	.565	.594	.709	.719
Bond Redemption & Interest	.132	.125	.069	.042	.039	.013	.000	--	--	--
PBC Lease Rentals	<u>.101</u>	<u>.120</u>	<u>.163</u>	<u>.152</u>	<u>.151</u>	<u>.173</u>	<u>.177</u>	<u>.173</u>	<u>.171</u>	<u>.099</u>
Total	3.773	4.088	4.246	4.222	4.267	4.323	4.167	4.251	4.327	4.083

* See Notes (2) and (3) under "Board's Statutory Tax Rate limitations" below.

**Board's Statutory Tax Rate Limitations
(per \$100 equalized assessed valuation)**

<u>Fund</u>	<u>Limits Prior to 1995 Amendatory Act</u>	<u>Limits After 1995 Amendatory Act(1)</u>
Educational	2.11(2)	3.07(3)
Special Education	.04	
Agricultural Science	.02	
Building	.45	
Playground and Recreational	.08	
Textbook	.11	
Teachers' Pension	.26	
Medicare	(4)	(4)
Workers' and Unemployment Compensation Tort Immunity	(4)	(4)
Public Building Commission Operation and Maintenance	(4)	(4)
Public Building Commission Lease Rentals	(5)	(5)

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- (1) 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. The Subsequent School Code Amendments made this consolidation permanent. See "THE BOARD OF EDUCATION OF THE CITY OF CHICAGO - Recent Legislative Changes -- Consolidation of Tax Levies."
 - (2) The Educational Fund tax levy could not exceed the sum of \$2.11 per \$100 of equalized assessed valuation ("EAV") plus the difference between \$.50 per \$100 of EAV and the rate of taxes extended for certain Authority bonds (to the extent such is less than \$.50 per \$100 of EAV). As a result of the application of this formula, the Educational Fund tax exceeded \$2.11 for tax levy years 1990 through 1994.
 - (3) The consolidated Educational Fund tax levy cannot exceed \$3.07 per \$100 of EAV, plus the difference between \$.50 per \$100 EAV and the rate of taxes extended for certain Authority bonds (to the extent such is less than \$.50 per \$100 of EAV). As a result of the application of this formula, the consolidated Educational Fund tax levy exceeded \$3.07 for tax levy years 1995 and 1996.
 - (4) These tax rates are not limited by law, but the extension of such taxes may be limited by the provisions of the Property Tax Extension Limitation Law. See "Property Tax Extension Limitation Law."
 - (5) This tax rate is not limited by law and the extension of such taxes with respect to the retirement of bonds issued prior to March 1, 1995 is not limited by the provisions of the Limitation Law.

Property Tax Rates for Major Units of Government
(per \$100 Equalized Assessed Valuation)

<u>Levy Year</u>	<u>Board</u>	<u>City</u>	<u>Community College District</u>	<u>School Finance Authority</u>	<u>Park District</u>	<u>Water Reclamation District</u>	<u>Cook County</u>	<u>Cook Forest Preserve</u>	<u>TOTAL</u>
1997	4.084	2.024	.356	.270	.665	.451	.919	.074	8.843
1996	4.327	2.182	.377	.291	.721	.492	.989	.074	9.453
1995	4.251	2.131	.376	.296	.730	.495	.994	.072	9.345
1994	4.167	2.158	.372	.265	.741	.495	.993	.073	9.264
1993	4.323	2.288	.381	.150	.778	.471	.971	.072	9.434
1992	4.267	2.210	.390	.190	.735	.470	1.176	.063	9.501
1991	4.222	2.183	.398	.204	.718	.482	1.040	.064	9.311
1990	4.246	2.570	.420	.239	.816	.525	1.068	.080	9.964
1989	4.088	2.848	.478	.253	.861	.522	1.048	.099	10.197
1988	3.773	2.871	.481	.266	.771	.536	1.128	.101	9.927

Source: Cook County Clerk's Office.

Direct and Overlapping Debt
(Dollars in Thousands)

The following table sets forth the direct and overlapping property tax supported debt applicable to the Board as of September 30, 1998, adjusted for the issuance of the Bonds.

		<u>Amount</u>
Direct Debt		
Bonds	\$	328,714
Prior Alternate Bonds		1,363,995
Leases Securing PBC Bonds		596,369
Certificates		<u>23,500</u>
Total Direct Debt		<u>\$2,312,578</u>
	<u>Amount</u>	<u>Percent</u>
Overlapping Debt(1)	<u>Amount</u>	<u>Applicable</u>
City	\$2,157,913	100%
School Finance Authority	693,540	100%
Community College District	194,935	100%
Chicago Park District (2)	626,355	100%
Water Reclamation District	1,177,264	45.15%
County	1,605,375	44.18%
Forest Preserve District	44,750	44.18%
		<u>19,771</u>
Total Overlapping Debt		<u>\$4,933,304</u>
Total Direct and Overlapping Debt		<u>\$7,245,882</u>

(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	\$194,935,000
Chicago Park District	36,200,000

(2) Includes \$125,745,006 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.

Selected Debt Statistics

Population (1990)	2,783,726 (1)
Equalized Assessed Valuation (1997)	\$33,349,557,227 (2)
Estimated Fair Market Value (1997)	\$106,282,206,560 (3)

	<u>Per Capita</u>	<u>% EAV</u>	<u>% FMV</u>
Direct Debt (4)	\$830.75	6.93%	2.18%
Total Direct and Overlapping Debt (4)	\$2,602.94	21.72%	6.82%

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- (1) Source: United States Census Bureau.
 - (2) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
 - (3) Source: The Civic Federation.
 - (4) Adjusted for the issuance of the Bonds.

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Equalized Assessed Valuation(1)	<u>\$ 28,661,954</u>	<u>\$ 30,090,355</u>	<u>\$ 30,388,258</u>	<u>\$ 30,773,302</u>	<u>\$ 33,357,600</u>
Statutory Debt Limit, 13.8% of equalized assessed valuation	<u>3,955,350</u>	<u>4,152,469</u>	<u>4,193,580</u>	<u>4,246,716</u>	<u>4,603,349</u>
Outstanding Debt and Rentals on Public Building Commission Leases Applicable to Limit:					
Principal amount of bonds outstanding(2)	5,575	---	---	---	---
Principal amount of certificates of participation	---	---	45,000	34,500	23,500
Aggregate future rentals on leases with Public Building Commission	1,309,354	1,261,591	1,210,253	1,167,832	1,116,489
Less -- Cash and investments on hand applicable to reduction of above debt	<u>(46,822)</u>	<u>(41,778)</u>	<u>(40,440)</u>	<u>(55,241)</u>	<u>(50,347)</u>
Net funded debt	<u>1,268,107</u>	<u>1,219,813</u>	<u>1,214,813</u>	<u>1,147,091</u>	<u>1,089,643</u>
Unfunded --					
Contracts, leases, purchase orders and outstanding judgments	123,621	82,855	80,627	92,136	85,000(3)
Asbestos abatement loans	<u>15,017</u>	<u>18,995</u>	<u>22,012</u>	<u>20,437</u>	<u>18,400</u>
Net Unfunded Debt	<u>138,638</u>	<u>101,850</u>	<u>102,642</u>	<u>112,573</u>	<u>103,400</u>
Total debt	<u>1,406,745</u>	<u>1,321,663</u>	<u>1,317,455</u>	<u>1,259,664</u>	<u>1,193,043</u>
Statutory Debt Margin(2)	<u>\$ 2,548,605</u>	<u>\$ 2,830,806</u>	<u>\$ 2,876,125</u>	<u>\$ 2,987,052</u>	<u>\$ 3,410,306</u>

- (1) Represents latest known equalized assessed valuation for year indicated.
- (2) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect the Bonds or the Prior Alternate Bonds, with an aggregate principal amount of approximately \$1.693 billion, because these Bonds do not count against the debt limit unless the tax levy supporting them is extended for collection. See "SECURITY FOR THE BONDS."
- (3) Unaudited; based on average of prior three years.

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APPENDIX B

Information Concerning Personal Property Replacement Tax Revenues

Description of Replacement Taxes. Through December 31, 1997, the 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 Replacement Taxes were allowed to claim a credit of 0.5 percent of the basis of certain qualified property placed in service during that year. On July 1, 1986, the credit was increased to a maximum of 1 percent for businesses whose employment in Illinois increases. This credit is scheduled to expire December 31, 2003.

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

⁽³⁾ Determined in accordance with applicable State taxes on the gross receipts of such public utilities. See "Recent Changes in 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 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 Replacement Taxes. Since the Replacement Taxes became effective July 1, 1979, one of the taxes imposed has been a tax on the invested capital of public utilities providing gas, telecommunications, electric and water service. However, as a result of recently

enacted legislation, the invested capital taxes on telecommunications and electric utilities have been repealed and replaced by a new fee and a new tax, respectively, as described below.

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.

In January, 1998, a lawsuit challenging Public Act 90-154 was filed on behalf of telecommunications customers as a purported class action. This lawsuit alleges, among other claims, that the imposition of the infrastructure maintenance fee constitutes double taxation and, as a result, violates the due process clauses of the State and federal constitutions and will result in the collection of an amount in excess of that required for replacement of the personal property tax in violation of the Illinois Constitution. The plaintiffs seek, among other relief, a declaration that Public Act 90-154 is unconstitutional. In April, 1998, motions to dismiss this lawsuit were filed by various State and local government officials, various municipalities and a telecommunications utility. These motions to dismiss are currently pending. The Board is not a party to this lawsuit.

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 electric distributed. This tax is to be paid quarterly by electric utilities to the State. 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 on 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 Replacement Taxes. See "SECURITY FOR THE BONDS -- Pledged Replacement Tax Revenues -- Allocation and Payment."

Future Legislative Action. Set forth above and under "SECURITY FOR THE BONDS -- Pledged Replacement Tax Revenues" is a description of the existing provisions of the State Revenue Sharing Act relating to the application, collection, allocation, appropriation and payment of the 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 Replacement Taxes collected and allocated by the State or on the amount and/or the timing of receipt of the Replacement Taxes to be received by the Board and deposited with the Escrow Agent. See "SECURITY FOR THE BONDS -- Pledged Replacement Tax Revenues -- Prior Statutory Claims."

Replacement Tax Statistical Tables

Following is the schedule of Replacement Taxes allocated by the State (including allocations to the Board) for the calendar years 1988 through 1997.

STATEWIDE REPLACEMENT TAX DATA (1)

BOARD REPLACEMENT TAX DATA (2)

Calendar Year	Invested Capital Tax Collections	Business Income Tax Collections Net of Refunds	Total Replacement Tax Allocations to Local Governments	Board Percent	Allocations to Board	Allocations for Debt Service (4)	Statutory Claims		Remainder after Allocations for Statutory Claims	Pro-Forma Pledged Replacement Tax Revenues (6)
							Net Adjustments (3)	Allocations for Pension Obligations (5)		
1997	\$207,588,506	\$681,758,792	\$896,390,663	14.0%	\$125,530,542	\$ --	\$ --	\$125,530,542	\$125,530,542	\$125,530,542
1996	204,855,487	613,945,039	809,355,061	14.0	113,342,071	--	--	113,342,071	113,342,071	113,342,071
1995	209,116,684	611,398,538	814,191,416	14.0	114,019,422	--	12,258,423	101,760,999	101,760,999	101,760,999
1994	218,208,943	488,055,514	696,162,392	14.0	97,489,664	548,625	11,420,422	85,520,617	86,069,242	86,069,242
1993	220,660,861	417,970,561	658,357,086	14.0	92,211,451	1,603,731	--	90,607,720	92,211,451	92,211,451
1992	222,645,452	361,944,027	582,279,499	14.0	81,556,398	1,688,851	--	79,867,547	81,556,398	81,556,398
1991	228,594,937	353,630,683	578,467,059	14.0	80,979,935	2,374,017	--	78,605,918	80,979,935	80,979,935
1990	229,250,815	401,303,867	616,178,041	14.0	86,259,119	4,041,105	9,024,687	73,193,327	77,234,432	77,234,432
1989	230,205,046	437,831,693	664,533,458	14.0	93,028,400	4,252,835	8,637,109	80,138,456	84,391,291	84,391,291
1988	233,339,500	413,980,175	648,957,899	14.0	90,847,970	4,470,821	8,073,027	78,304,122	82,774,943	82,774,943

(1) Source: Illinois Department of Revenue.

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

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

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

(5) 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). See "SECURITY FOR THE BONDS--Pledged Replacement Tax Revenues--Prior Statutory Claims." for a more complete discussion of the Statutory Claims relating to the Board's pension and retirement obligations.

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

Actual and Estimated Replacement Taxes Received by the Board
(Dollars in Thousands)

Following is the schedule of Replacement Taxes received by the Board from January 1994 through October 1998 and the amount budgeted for December 1998. For a discussion of the prior statutory claim on Replacement Taxes, see "SECURITY FOR THE BONDS--Pledged Replacement Tax Revenues--Prior Statutory Claims."

<u>Calendar</u> <u>Year</u>	<u>Jan</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>July</u>	<u>Aug</u>	<u>Oct</u>	<u>Dec</u>	<u>Total for</u> <u>Calendar</u> <u>Year</u>
1998	\$20,066	\$7,514	\$28,179	\$17,382	\$23,456	\$9,334	\$20,907	\$7,500	\$134,338 (1)
1997	19,922	6,373	25,501	15,807	24,568	4,040	22,542	6,777	125,530
1996	20,074	4,620	22,931	11,766	22,143	4,155	20,567	7,086	113,342
1995	17,816	5,460	24,455	12,664	20,893	3,673	21,525	7,533	114,019
1994	17,483	3,389	20,505	10,742	19,283	2,456	18,923	4,709	97,490

(1) Total for 1998 reflects amounts received through October, 1998 and the amount budgeted for December 1998.

Source: Board of Education of the City of Chicago, Illinois.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

DEFINITIONS OF CERTAIN TERMS

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

"Additional Bonds" means any alternate bonds issued in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged Revenues with the Bonds, the Series 1997A Bonds and the Series 1998 Bonds, as described in this Appendix C under the heading "ADDITIONAL BONDS PAYABLE FROM PLEDGED REVENUES."

"Authorized Denominations" means \$5,000 Compound Accreted Value at maturity, or any integral multiple thereof.

"Authorized Officer" means (i) the Chief Fiscal Officer of the Board; (ii) the Controller and Director of Capital Planning 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 Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois.

"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.

"Bond Payment Account" means the account of that name within the Debt Service Fund which is established by the Indenture.

"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.

"Compound Accreted Value" means that amount representing a repayment of the original principal amount of a Bond and the payment of an investment return accrued over the life of such Bond at a semi-annual compounding rate which is necessary to produce the approximate yield to maturity for such Bond from the date of such Bond.

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

"County Clerks" means 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 fund so designated which is established by the Indenture.

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

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

"Deposit Sub-Account" means the sub-account of that name in the Pledged Revenues Account established by 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.

"Event of Default" means any event so designated and specified as such in this Appendix C under the heading "Events of Default and Remedies—Events of Default."

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

"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 September 1, 1998, by and between the Board and the Trustee, as from time to time amended and supplemented.

"Intergovernmental Agreement" means the Intergovernmental Agreement dated as of October 1, 1997, by and between the Board and the City of Chicago, as from time to time amended and supplemented.

"Intergovernmental Agreement Revenues" means the amounts paid to the Board pursuant to the Intergovernmental Agreement.

"Intergovernmental Agreement Revenues Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by the Indenture.

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

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

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

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

(iii) Senior debt obligations which at the time of purchase are rated "AAA" by Standard & Poor's Ratings Services ("*S&P*") and "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") issued by the Federal National Mortgage Association 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;

(v) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" 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 and are subject to certain additional requirements set forth in the Indenture;

(viii) Pre-refunded Municipal Obligations; and

(ix) Any other obligation authorized under the Investment Policy.

"Outstanding," when used with reference to Bonds, means, as of any date, all Bonds authenticated and delivered under the Indenture except:

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

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

(iii) Bonds in lieu of or in substitution for which other Bonds will have been authenticated and delivered in connection with any substitution, transfer or exchange; and

(iv) Bonds deemed to have been paid as described herein under the heading "DEFEASANCE."

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

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

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

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

"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.

"Personal Property Replacement Tax Revenues Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by the Indenture.

"Pledged Personal Property Replacement Tax Revenue" 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.

"Pledged Revenues" means the (i) Pledged Personal Property Replacement Tax Revenues and (ii) the Intergovernmental Agreement Revenues, both of which revenues are pledged under the Indenture as security for the Bonds.

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

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

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

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

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

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or

dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

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

"Project Costs" means the cost of construction, acquisition and equipping of the Project, including the cost of acquisition of all land, rights of way, property, rights, easements and interests acquired by the Board for such Project, the cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved, the cost of all machinery and equipment determined to be necessary and desirable by the Board, the costs of issuance of the Bonds, financing charges, financial advisory fees, consultant fees, interest prior to and during construction and for such period after completion of construction as the Board shall determine, the cost of engineering and legal expenses, plans, specifications, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing, acquiring or equipping any portion of the Project, administrative expenses, rebate payments and such other costs, expenses and funding as may be necessary or incident to the construction, acquisition or equipping of the Project, the financing of such construction, acquisition or equipping and the placing of the Project in operation.

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

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

"Record Date" means the fifteenth day (whether or not a Business Day) of the calendar month next preceding the maturity date or mandatory redemption date of the Bonds.

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

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

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

"State" means the State of Illinois.

"Statutory Claims" means 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 of the State, as amended, or such successor or replacement act as may be enacted in the future.

"Supplemental Indenture" means any Supplemental Indenture of the Board authorized pursuant to the Indenture.

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

"Trust Estate" means the Pledged 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 Compound Accreted Value of all Bonds issued under the Indenture and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board in the Indenture pledges and grants a lien upon the following Trust Estate to the Trustee, to the extent provided in the Indenture:

(a) The Pledged Revenues (subject to the parity claim on the Pledged Revenues for the payment of the Series 1997A Bonds and the Series 1998 Bonds) and the Pledged Taxes.

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

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

THE BONDS ARE GENERAL OBLIGATIONS

The Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows

that the Bonds have been paid from the Pledged Revenues for a complete fiscal year of the Board.

ADDITIONAL BONDS PAYABLE FROM PLEDGED 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 Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Indenture authorizes the issuance of Additional Bonds payable from all or any portion of the Pledged 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 Revenues with the Bonds, the Series 1997A Bonds and the Series 1998 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 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 Revenues Account under the Indenture during such year.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Intergovernmental Agreement Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Intergovernmental Agreement Revenues available to the Board in each year in excess of those required to be deposited in the Pledged Revenues Account under the Indenture during such year.

PROVISIONS REGARDING PAYMENT OF BONDS

The Compound Accreted Value of the Bonds is payable upon presentation and surrender of the Bonds at the designated corporate trust office 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. The Compound Accreted Value of the Bonds is payable 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 the 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 original principal amount and maturity as the surrendered Bond. 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 original principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denomination. The Registrar and the Trustee will not be required to make any registration, transfer or exchange of any Bond during the period between the Record Date and the maturity date of such Bond.

ESTABLISHMENT AND APPLICATION OF PROJECT FUND

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

(i) the costs of an aggregate amount set forth in such certificate are necessary and appropriate Project Costs that (A) have been incurred and paid or (B) are expected to be paid within the next 60 days;

(ii) the amount to be paid or reimbursed to the Board, as set forth in such certificate, is reasonable and represents a part of the amount payable for the Project Costs and that such payment is to be made or, in the case of reimbursement to the Board, was made, in accordance with the terms of any applicable contracts and in accordance with usual and customary practice under existing conditions;

(iii) that no part of the Project Costs that are the subject of such certificate was included in any certificate previously filed with the Trustee under the provisions hereof; and

(iv) the use of the money so withdrawn from the Project Fund and the use of the facilities provided with such moneys will not result in a violation of any covenant, term or provision of the Tax Agreement.

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

the Project Fund will be retained therein and applied to the purposes for which moneys in the Project Fund are otherwise held.

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

APPLICATION OF PLEDGED REVENUES AND PLEDGED TAXES

DEBT SERVICE FUND AND ACCOUNTS

Establishment of Debt Service Fund. The Debt Service Fund and the following Accounts within the Debt Service Fund are established with the Trustee to be held and applied in accordance with the provisions of the Indenture:

1. Pledged Revenues Account, consisting of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account shall further consist of (i) the Personal Property Replacement Tax Revenues Sub-Account and (ii) the Intergovernmental Agreement Revenues Sub-Account.
2. Pledged Taxes Account, and
3. Bond Payment Account.

Pledged Revenues Account. The Pledged Revenues received by the Trustee from the Escrow Agent pursuant to the Escrow Agreement shall be applied as follows:

(i) All Pledged Personal Property Replacement Tax Revenues received by the Trustee from the Escrow Agent in each Year shall be deposited promptly upon receipt into the Deposit Sub-Account, until there shall be on deposit in said Sub-Account an amount of Pledged Personal Property Replacement Tax Revenues sufficient to pay all of the Compound Accreted Value of the Bonds to be paid from Pledged Personal Property Replacement Tax Revenues during the Bond Year beginning on December 2 of such year, as set forth in the Indenture.

(ii) All Intergovernmental Agreement Revenues received by the Trustee from the Escrow Agent in each Bond Year shall be deposited promptly upon receipt in the Intergovernmental Agreement Revenues Sub-Account.

(iii) Promptly after there shall have been deposited to the credit of the Deposit Sub-Account in any Year an amount sufficient to satisfy the requirement set forth in the preceding subparagraph (i), the Trustee shall (A) notify the Board of that fact and the

Board shall, pursuant to the Indenture, take such actions as are necessary to abate the Pledged Taxes levied for the then-current Year in full and (B) not earlier than December 3 of the then-current Year nor later than the last Business Day of the then-current Year, transfer all amounts on deposit in the Deposit Sub-Account into the Personal Property Replacement Tax Revenues Sub-Account.

(iv) In the event that as of the last Business Day of any Year there has been deposited to the credit of the Deposit Sub-Account an insufficient amount to satisfy the requirement set forth in the preceding subparagraph (i), the Trustee shall (A) notify the Board of that fact and the amount of the shortfall and the Board shall, pursuant to the Indenture, 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 Compound Accreted Value of the Bonds due during the Bond Year beginning on December 2 of the then-current Year and scheduled to be paid from Pledged Replacement Tax Revenues and (B) on such last Business Day of such Year, transfer all amounts on deposit in the Deposit Sub-Account into the Personal Property Replacement Tax Revenues Sub-Account.

(v) All amounts on deposit in the Personal Property Replacement Tax Revenues Sub-Account on December 2 of each Year shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture, which withdrawal shall be made prior to any deposit to the Personal Property Replacement Tax Revenues Sub-Account pursuant to clause (B) of each of the preceding subparagraphs (iii) and (iv).

(vi) All amounts on deposit in the Intergovernmental Agreement Revenues Sub-Account of the Payment Sub-Account on December 2 of each Year shall be withdrawn from such Sub-Account and paid to the Board free and clear of the lien of the Indenture and the Trustee shall provide notice to the Board that such amounts paid constitute Intergovernmental Agreement Revenues.

Pledged Taxes Account. The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. All Pledged Taxes received by the Trustee from the Escrow Agent shall be deposited promptly upon receipt into the Pledged Taxes Account and applied to the payment of the Compound Accreted Value of the Bonds due during the Year in which said Pledged Taxes are collected.

Bond Payment Account. There will be transferred *first* from moneys on deposit in the Pledged Taxes Account, *second* from the Intergovernmental Agreement Revenues Sub-Account and *last* from the Personal Property Replacement Tax Revenues Sub-Account to the Bond Payment Account on or before each December 1, an amount equal to the Compound Accreted Value of the Outstanding Bonds which mature on such date. The Trustee will pay to the respective Paying Agents in Current Funds on or before each date on which Compound Accreted Value is due on the Bonds the respective amounts on deposit in the Bond Payment Account

described above necessary to pay such debt service. Such amounts will be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof.

INVESTMENTS OF FUNDS

INVESTMENT OF CERTAIN MONEYS

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and in the Project Fund will be invested and reinvested by the Trustee at the direction of an Authorized Officer in Investment Securities within the parameters established in the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. 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 direction of an Authorized Officer will sell at the best price obtainable, or present for redemption, any Investment Security held in any Fund, Account or Sub-Account held by the Trustee whenever it will be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be.

PARTICULAR COVENANTS AND REPRESENTATIONS OF THE BOARD

COVENANTS REGARDING PLEDGED REVENUES

Pursuant to the Intergovernmental Agreement, the Chief Financial Officer of the City of Chicago has executed and delivered a written direction to each of the County Collectors to deposit all collections of the Intergovernmental Agreement Revenues in each Year, beginning

with the payment to be made in 2003, directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. So long as any of the Bonds remain Outstanding, the Board will not agree to amend or supplement the Intergovernmental Agreement so as to authorize the modification or amendment of such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law 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 Intergovernmental Agreement Revenues to be paid to the Board during any Year.

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. So long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be (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 any 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 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 in order to assure that the Pledged Revenues may be allocated and paid to the Board for application as provided in the Escrow Agreement and 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 Escrow Agent for application in accordance with the provisions of the Escrow Agreement. So long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law or procedures or rules, regulations or procedures 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 Escrow Agent of less than all of the Pledged Taxes to be collected in any Year.

Upon receipt of the notice from the Trustee described in subparagraphs (iii) and (iv) under the heading "APPLICATION OF PLEDGED REVENUES AND PLEDGED TAXES — Debt Service Fund and Accounts — *Pledged Revenues Account*," above, the Board will direct such abatement of the Pledged Taxes in whole or in part as described in said subparagraphs, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

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

INDEBTEDNESS AND LIENS

The Board will not issue any bonds or other evidences of indebtedness, other than the Bonds, the Series 1997A Bonds, the Series 1998 Bonds and Additional Bonds, which are secured by a pledge of or lien on the Pledged Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture, and will not, except as (i) to the prior claim of the outstanding Series 1996 Bonds and the Series 1997 Bonds to Personal Property Replacement Tax Revenues; (ii) to the parity claim on the Pledged Revenues for the payment of the Series 1997A Bonds created under the Series 1997A Indenture; (iii) to the parity claim on the Pledged Revenues for the payment of the Series 1998 Bonds created under the Series 1998 Resolution; and (iv) as provided in the Indenture with respect to future parity pledges, create or cause to be created any lien or charge on the Pledged 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 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 in original principal amount of Outstanding Bonds or their representatives duly authorized in writing.

ARBITRAGE

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

EVENTS OF DEFAULT AND REMEDIES

EVENTS OF DEFAULT

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

- (1) if a default occurs in the due and punctual payment of Compound Accreted Value of any Bond when and as the same becomes due and payable, whether at maturity or otherwise;

(2) if a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, 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 original principal amount of the Outstanding Bonds; or

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

APPLICATION OF TRUST ESTATE AND OTHER MONEYS ON DEFAULT

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged 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 to the persons entitled thereto of the unpaid Compound Accreted Value 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 Compound Accreted Value due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of Compound Accreted Value of 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 Compound Accreted Value of 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 over to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

RESTRICTIONS ON BONDHOLDERS' ACTIONS

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

NO REMEDY EXCLUSIVE

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

WAIVER

The Owners of not less than two-thirds in original 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 Compound Accreted Value of any of the Bonds. 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, in which event such resignation will take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee has not been appointed within a period of 90 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

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

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

If no appointment of a Trustee is made by the Board pursuant to 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 its principal 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 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 original 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 Compound Accreted Value of any Bond, without the consent of the Owner of such Bond, or (b) a reduction in the amount of, or extension of the time of, any payment required by any sinking fund applicable to any Bonds without the consent of the Owners of all the Bonds which would be affected by the action to be taken, or (c) except for the pledge of the Pledged Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, or (d) a reduction in the aforesaid aggregate original principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, or (e) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (f) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Bondholder to the extent otherwise afforded under the Code and Regulations.

Consent of Owners. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when, (a) there has been filed with the Trustee (i) the written consents of the Owners of the required original 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 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 original 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 Compound Accreted Value due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate pledged under the Indenture and all covenants, agreements and other obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment. 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), the Compound Accreted Value 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 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 Compound Accreted Value, (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

Compound Accreted Value due and to become due on said Bonds on each 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 Compound Accreted Value of said Bonds.

The Defeasance Obligations (or any portion thereof) held for the payment of the Compound Accreted Value of 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 Compound Accreted Value of 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 D

Audited Financial Statements For Fiscal Year 1997

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Chicago Public Schools
Reform Board of Trustees:

We have audited the accompanying general purpose financial statements of the Chicago Public Schools (the Board of Education of the City of Chicago, the "Board", a body politic and corporate of the State of Illinois) as of and for the ten month period ended June 30, 1997. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Chicago Public Schools as of June 30, 1997, and the results of its operations for the ten month period then ended, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Chicago, Illinois,
October 30, 1997

CHICAGO PUBLIC SCHOOLS
Chicago School Reform Board of Trustees

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1997

(Thousands of Dollars)

	Governmental Fund Types			Fiduciary Fund
	General Operating Fund	Capital Projects Funds	Debt Service Fund	Agency Fund
ASSETS:				
Cash and investments (Note 5).....	\$ 344,162	\$ -	\$ -	\$ 14,334
Cash and investments in escrow (Note 5).....	94,811	675,110	42,813	-
Receivables -				
Property taxes, net of allowance for loss (Note 4).....	659,151	-	80,981	-
Replacement taxes (Note 2).....	24,568	-	-	-
State aid, net of allowance for uncollectible accounts.....	186,497	-	-	-
Federal aid	41,033	1,451	-	-
Other	8,897	1,037	-	-
Due from (to) other funds.....	177,021	(177,021)	-	-
Inventories (Note 2)	2,855	-	-	-
Other assets	2,973	-	-	-
Fixed assets (Notes 2 and 6) -				
Land	-	-	-	-
Buildings and permanent improvements	-	-	-	-
Equipment	-	-	-	-
Amount designated for debt service.....	-	-	-	-
Amount to be provided in the future for retirement of long-term obligations (Note 2)	-	-	-	-
Total Assets	\$ 1,541,968	\$ 500,577	\$ 123,794	\$ 14,334

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

Account Groups		Total
Fixed Assets	Long-Term Obligations	(Memorandum Only)
\$ -	\$ -	\$ 358,496
-	-	812,734
-	-	740,132
-	-	24,568
-	-	186,497
-	-	42,484
-	-	9,934
-	-	-
-	-	2,855
-	-	2,973
92,406	-	92,406
2,715,175	-	2,715,175
58,695	-	58,695
-	133,726	133,726
-	2,906,400	2,906,400
<u>\$ 2,866,276</u>	<u>\$ 3,040,126</u>	<u>\$ 8,087,075</u>

CHICAGO PUBLIC SCHOOLS
Chicago School Reform Board of Trustees

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 1997

(Thousands of Dollars)

	Governmental Fund Types			Fiduciary Fund
	General Operating Fund	Capital Projects Funds	Debt Service Fund	Agency Fund
LIABILITIES, EQUITY AND OTHER CREDITS:				
LIABILITIES:				
Accounts payable.....	\$ 144,454	\$ 42,947	\$ -	\$ -
Accrued payroll.....	183,905	-	-	-
Amounts held for student activities.....	-	-	-	14,334
Other accrued liabilities.....	21,195	-	-	-
Due Public School Teachers' Pension and Retirement Fund of Chicago.....	26,192	-	-	-
Due Municipal Employees' Annuity and Benefit Fund of Chicago.....	5,020	-	-	-
Deferred property tax revenue (Note 2).....	659,151	-	80,981	-
Bond principal payable (Note 8a).....	-	-	-	-
Certificate of Participation principal payable (Note 8b).....	-	-	-	-
Rentals payable under capital leases (Note 8c).....	-	-	-	-
Other long-term obligations (Notes 8d and 9).....	-	-	-	-
Total Liabilities.....	\$ 1,039,917	\$ 42,947	\$ 80,981	\$ 14,334
EQUITY AND OTHER CREDITS:				
Investment in fixed assets (Notes 2 and 6).....	\$ -	\$ -	\$ -	\$ -
Fund Balances --				
Reserved --				
Reserved for encumbrances (Note 2).....	61,787	184,680	-	-
Reserved for restricted donations.....	429	-	-	-
Reserved for specific purposes (Note 7).....	60,994	-	-	-
Reserved for debt service (Note 7).....	90,913	-	42,813	-
Unreserved --				
Designated to provide operating capital (Notes 7 and 12).....	216,100	-	-	-
Undesignated.....	71,828	272,950	-	-
Total Equity and Other Credits.....	\$ 502,051	\$ 457,630	\$ 42,813	\$ -
Total Liabilities, Equity and Other Credits.....	\$ 1,541,968	\$ 500,577	\$ 123,794	\$ 14,334

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

Account Groups		Total
Fixed Assets	Long-Term Obligations	(Memorandum Only)
\$ -	\$ -	\$ 187,401
-	-	183,905
-	-	14,334
-	-	21,195
-	-	26,192
-	-	5,020
-	-	740,132
-	850,000	850,000
-	34,500	34,500
-	610,919	610,919
-	1,544,707	1,544,707
<u>\$ -</u>	<u>\$ 3,040,126</u>	<u>\$ 4,218,305</u>
\$ 2,866,276	\$ -	\$ 2,866,276
-	-	-
-	-	246,467
-	-	429
-	-	60,994
-	-	133,726
-	-	-
-	-	216,100
-	-	344,778
<u>\$ 2,866,276</u>	<u>\$ -</u>	<u>\$ 3,868,770</u>
<u>\$ 2,866,276</u>	<u>\$ 3,040,126</u>	<u>\$ 8,087,075</u>

CHICAGO PUBLIC SCHOOLS
Chicago School Reform Board of Trustees

COMBINED STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING
SOURCES (USES) AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND TYPES

For the Ten Month Period Ended June 30, 1997

(Thousands of Dollars)

	General Operating Fund	Capital Projects Funds	Debt Service Fund	Total (Memorandum Only)
REVENUES:				
Property taxes (Note 4).....	\$ 1,227,204	\$ -	\$ 51,530	\$ 1,278,734
Replacement taxes (Note 2).....	118,858	-	-	118,858
State aid.....	793,558	6,560	-	800,118
Federal aid.....	353,313	-	-	353,313
Investment income.....	32,512	18,990	5,062	56,564
Other.....	23,540	8,859	-	32,399
Total Revenues.....	\$ 2,548,985	\$ 34,409	\$ 56,592	\$ 2,639,986
EXPENDITURES:				
Current:				
Executive administration.....	\$ 1,440	\$ 20	\$ -	\$ 1,460
Instruction.....	1,544,327	15,074	-	1,559,401
Pupil support services.....	249,973	240	-	250,213
Administrative support services.....	78,526	1,404	-	79,930
Facilities support services.....	170,173	17	-	170,190
Instructional support services.....	199,133	515	-	199,648
Food services.....	130,727	-	-	130,727
Community services.....	34,084	109	-	34,193
Teachers' pension (Note 9).....	51,704	-	-	51,704
Capital outlay.....	49,998	313,414	-	363,412
Debt service (Note 8).....	38,443	-	42,421	80,864
Other.....	20,053	-	-	20,053
Total Expenditures.....	\$ 2,568,581	\$ 330,793	\$ 42,421	\$ 2,941,795
REVENUES IN EXCESS OF (LESS THAN)				
EXPENDITURES.....	\$ (19,596)	\$ (296,384)	\$ 14,171	\$ (301,809)
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuances (Note 8a and 8b).....	33,003	458,047	-	491,050
REVENUES AND OTHER FINANCING SOURCES				
(USES) IN EXCESS OF (LESS THAN)				
EXPENDITURES.....	\$ 13,407	\$ 161,663	\$ 14,171	\$ 189,241
Fund Balances, beginning of period.....	488,644	295,967	28,642	813,253
Fund Balances, end of period.....	\$ 502,051	\$ 457,630	\$ 42,813	\$ 1,002,494

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

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CHICAGO PUBLIC SCHOOLS
Chicago School Reform Board of Trustees

COMBINED STATEMENT OF REVENUES, EXPENDITURES BY OBJECT,
OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCE
BUDGET VS. ACTUAL – GOVERNMENTAL FUND TYPES

For the Ten Month Period Ended June 30, 1997

(Thousands of Dollars)

	General Operating Fund		
	Final Amended Budget	Ten Month Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property taxes (Note 4).....	\$ 1,226,700	\$ 1,227,204	\$ 504
Replacement taxes (Note 2).....	111,500	118,858	7,358
State aid.....	784,487	793,558	9,071
Federal aid.....	385,933	353,313	(32,620)
Investment income.....	21,250	32,512	11,262
Other.....	30,813	23,540	(7,273)
Total Revenues.....	\$ 2,560,683	\$ 2,548,985	\$ (11,698)
EXPENDITURES:			
Salaries --			
Teachers.....	\$ 1,298,906	\$ 1,286,463	\$ 12,443
Career services.....	334,990	322,299	12,691
Commodities --			
Energy.....	43,687	52,690	(9,003)
Food.....	57,466	65,492	(8,026)
Textbooks.....	29,060	47,938	(18,878)
Supplies.....	25,310	29,372	(4,062)
Other.....	.	778	(778)
Services --			
Professional and special.....	184,963	179,751	5,212
Transportation.....	80,537	83,405	(2,868)
Tuition.....	48,200	45,653	2,547
Telephone.....	9,448	9,965	(517)
Other.....	15,232	10,134	5,098
Equipment – Educational.....	19,347	37,012	(17,665)
Buildings and sites --			
Repairs and replacements.....	9,027	9,375	(348)
Capital outlay.....	80	44	36
Fixed charges --			
Teachers' pension (Note 9).....	175,471	174,372	1,099
Career service pension (Note 9).....	26,399	25,143	1,256
Hospitalization and dental insurance.....	133,761	118,006	15,755
Medicare.....	11,857	10,343	1,514
Unemployment compensation.....	4,500	4,500	.
Workers' compensation (Note 10).....	10,000	11,723	(1,723)
Rent (Note 8a).....	4,637	5,310	(673)
Debt service.....	47,150	38,443	8,707
Other.....	132,337	370	131,967
Total Expenditures.....	\$ 2,702,365	\$ 2,568,581	\$ 133,784
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES.....	\$ (141,682)	\$ (19,596)	\$ 122,086
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuances (Notes 8a and 8b).....	.	33,003	33,003
REVENUES AND OTHER FINANCING SOURCES (USES) IN EXCESS OF (LESS THAN) EXPENDITURES.....	\$ (141,682)	\$ 13,407	\$ 155,089
Fund Balances, beginning of period (actual).....	488,644	488,644	.
Fund Balances, end of period.....	\$ 346,962	\$ 502,051	\$ 155,089

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

Capital Project Funds			Debt Service Funds		
Final Amended Budget	Ten Month Actual	Variance Favorable (Unfavorable)	Final Amended Budget	Ten Month Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 51,400	\$ 51,530	\$ 130
-	-	-	-	-	-
-	6,560	6,560	-	-	-
-	-	-	-	-	-
-	18,990	18,990	-	5,062	5,062
-	8,859	8,859	-	-	-
<u>\$ -</u>	<u>\$ 34,409</u>	<u>\$ 34,409</u>	<u>\$ 51,400</u>	<u>\$ 56,592</u>	<u>\$ 5,192</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	262	(262)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
14,032	4,966	9,066	-	-	-
5	63	(58)	-	-	-
-	-	-	-	-	-
696,700	291,579	405,121	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	14	(14)	-	-	-
6,773	17,172	(10,399)	-	-	-
-	-	-	-	-	-
1	11	(10)	-	-	-
-	16,726	(16,726)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	51,400	42,421	8,979
-	-	-	-	-	-
<u>\$ 717,511</u>	<u>\$ 330,793</u>	<u>\$ 386,718</u>	<u>\$ 51,400</u>	<u>\$ 42,421</u>	<u>\$ 8,979</u>
\$ (717,511)	\$ (296,384)	\$ 421,127	\$ -	\$ 14,171	\$ 14,171
-	458,047	458,047	-	-	-
\$ (717,511)	\$ 161,663	\$ 879,174	\$ -	\$ 14,171	\$ 14,171
295,967	295,967	-	28,642	28,642	-
<u>\$ (421,544)</u>	<u>\$ 457,630</u>	<u>\$ 879,174</u>	<u>\$ 28,642</u>	<u>\$ 42,813</u>	<u>\$ 14,171</u>

NOTES TO FINANCIAL STATEMENTS
June 30, 1997

NOTE 1. DESCRIPTION OF ENTITY, FUNDS AND ACCOUNT GROUPS

Reporting Entity

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 Chicago School Reform Board of Trustees is established under and governed by the 1995 Amendatory Act of Illinois School Code. The CPS maintains a system of schools primarily for kindergarten through twelfth grade.

As a result of legislation passed by the Illinois General Assembly (see Note 3) which became effective on June 30, 1995, the Mayor of the City of Chicago appoints the Chicago School Reform Board of Trustees ("the Reform Board"). The City of Chicago's ("the City") accountability for the Reform Board does not extend beyond making appointments, and the Reform Board is not fiscally dependent on the City. The Reform Board is excluded from the City's reporting entity because it does not meet the criteria for inclusion established by the Governmental Accounting Standards Board Statement No. 14 (GASB No. 14).

The Chicago School Finance Authority (see Note 14), the Public Building Commission of Chicago (see Note 9c) and the Public School Teachers' Pension and Retirement Fund of Chicago (see Note 10) are related but separate entities and are not included as part of the CPS' reporting entity. These units are excluded from the CPS' reporting entity because they do not meet the criteria for inclusion as established by the GASB No. 14.

Change in Fiscal Year

Effective with fiscal year 1997, the 1995 Amendatory Act (see Note 3) changed the CPS's fiscal year to June 30 from August 31. As a result, fiscal year 1997 is the ten month period ended June 30, 1997.

Funds and Account Groups

The CPS reports its financial activities through the use of "fund accounting." This is a system of accounting wherein transactions are reported in self-balancing sets of accounts to reflect results of activities. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained, consistent with legal and managerial requirements. A description of the activities of the various funds and account groups is provided below.

Governmental Fund Types

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 the CPS and is made up of the following programs:

- Educational Program (including debt service for the Certificates of Participation and the General Obligation Bonds)
- State Chapter 1 Program
- School Lunch Program
- School Special Income Account
- Elementary and Secondary Education Act Program
- Education of the Handicapped Program

NOTE 1. DESCRIPTION OF ENTITY, FUNDS AND ACCOUNT GROUPS (continued)

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

b. Capital Projects Funds

Capital Asset Fund - This Fund is for the receipt and expenditure of the proceeds from the sale of certain CPS real estate, proceeds from the Chicago School Finance Authority (the "Authority") and other miscellaneous capital projects.

Capital Improvement Program Funds - This Fund is for the receipt and expenditure of proceeds from the sale of Unlimited Tax General Obligation Bonds issued for the purpose of building and improving schools as designated by the CPS (Note 8). The bonds will be repaid in the General Operating Fund from replacement tax revenue to the extent possible, and then from a separate tax levy associated with the bonds (Note 4).

Capital Equipment Fund - This Fund is for the receipt and expenditure of proceeds of Certificates of Participation issued during fiscal year 1996 for the purchase of equipment and textbooks as designated by the CPS (Note 8). The Certificates will be repaid in the General Operating Fund from annual taxes levied from the CPS' Educational tax levy (Note 4).

c. Debt Service Fund

This Fund is for the receipt and expenditure of tax levies (see Note 4) for the rental from the Public Building Commission (the "PBC") of school buildings. 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 (see Note 8c). This obligation is reported in the Long-Term Obligation Account Group discussed below.

Fiduciary Fund Type

Agency Fund - This fund is for the receipt and expenditure of student fees for student activities.

Account Groups

Fixed Assets - This Account Group includes the general fixed assets arising from capital outlay expenditures of the General Operating, Capital Projects and Debt Service Funds (see Notes 2 and 6).

Long-Term Obligations - This Account Group includes the long-term principal portion of all unmatured debt, PBC capital lease obligations and the long-term portion of other obligations, primarily pension costs, which will be funded from future resources (see Note 8).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The basis of accounting applied to a fund is determined by its measurement focus. The governmental and fiduciary fund types are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting described below. Revenues are recognized in the accounting period in which they are measurable and available to finance expenditures; thus they are susceptible to accrual.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The CPS recognizes its property tax revenues as those taxes which have been levied, are due and collected within the fiscal year, and are available for that fiscal year. This method is consistent with the CPS' budgetary and financial projection practices. Under this property tax revenue recognition policy, the current calendar year's second half installment collections of property taxes are excluded from current year revenues. These collections are deferred from recognition until the subsequent fiscal year when they will be available to be appropriated.

Deferred property tax revenue represents property taxes levied, net of an allowance for loss, which have not yet been recognized as revenues.

Replacement taxes are not subject to accrual until such amounts have been collected by the State and are available for distribution to local governmental units. Accordingly, replacement tax revenue is not recognized by the CPS until such amounts are deposited by the State in the State of Illinois Replacement Tax Fund for distribution to the CPS. Replacement tax revenues received from the state are first distributed to a trustee for payments on the Unlimited Tax General Obligation Bonds to the extent required by the debt agreement, as explained in Note 5. The remaining taxes are deposited in the General Operating Fund.

State and Federal aid revenues are susceptible to accrual when eligible expenditures or applicable encumbrances are incurred.

Debt service expenditures are recognized in the accounting period when they are due. All other expenditures are recognized in the accounting period in which the liability is incurred.

Encumbrances outstanding at fiscal year-end represent the estimated amount of commitments from purchase orders or contracts for which goods and services have not been received. Encumbrances outstanding at year-end are recorded as reservations of fund balance.

Budgets

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

Certain funding allocations (primarily Federal and State programs, including State Chapter I) are made to schools but are not budgeted by object by the schools at the time the budget is adopted. These allocations are included in Other Fixed Charges for budget purposes. Actual expenditures are reflected in the appropriate objects.

The appropriated budget is prepared by fund, object and unit. The legal level of budgetary control is the fund level.

The Capital Projects Fund is budgeted on a project by project basis.

Amounts to be Provided in the Future for the Retirement of Long-Term Obligations

The scheduled debt payments for PBC rentals are met through property taxes. The scheduled debt payments for the Unlimited Tax General Obligation Bonds will be met through replacement tax revenues to the extent possible, and then from a separate tax levy associated with the bonds. No specific revenue sources are currently available to provide for other liabilities reflected in the Long-Term Obligations Account Group.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed Assets

Expenditures for the acquisition of equipment, land, buildings, building additions, and rehabilitation projects which extend the life of existing buildings are recorded as expenditures in the General Operating Fund. These acquisitions, except for equipment purchased for less than \$15,000, are also reported in the Fixed Assets Account Group (see Note 6). All purchased fixed assets are recorded at cost or estimated cost if no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs are recorded as expenditures in the Governmental Funds but are not capitalized. Assets in the Fixed Assets Account Group are not depreciated.

Inventories

Inventories, principally materials, supplies, and food, are stated at average cost. This average cost is determined using actual cost for purchased goods and fair market value for donated commodities. The cost of inventories is recorded as expenditures when the inventories are consumed.

Total Columns on Combined Financial Statements

Total columns on the combined financial statements captioned "Memorandum Only" are presented to facilitate financial analysis and do not represent financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

NOTE 3. 1995 AMENDATORY ACT

Public Act 89-15 ("1995 Amendatory Act"), approved on May 30, 1995, effective June 30, 1995, made significant changes in the governance, financial structure and management of the CPS, which include the following:

- a. The existing Board was abolished and replaced by the five member Reform Board which was appointed by the Mayor of the City of Chicago.
- b. For fiscal years 1996 through 1999, the tax levies for the Buildings, Playgrounds, Textbooks, Special Education, Agricultural Science School and Teacher Pensions are consolidated in the General Operating Fund. The consolidated rate limit for the Education Fund is equal to the sum of the rate limits of the funds which were consolidated.
- c. The funding requirement for the Public School Teacher Pension and Retirement Fund changed (see Note 10).
- d. Certain State grants were changed to block grants as follows:
 1. A General Education Block Grant which the CPS can spend for any purpose.
 2. An Education Services Block Grant which the CPS must spend on the following programs: Special Education, Transportation, Bilingual Education, Education Service Centers, Preschool, State Lunch and Free Breakfast Program, Summer School and Administrator's Academy.
- e. State Chapter I funding was set at a minimum of \$261 million annually.
- f. Effective in fiscal year 1997, the fiscal year is changed to July 1 through June 30.

NOTE 3. 1995 AMENDATORY ACT *(continued)*

- g. The 1995 Amendatory Act excludes certain matters as subjects of collective bargaining, including decisions to contract services performed by employees to third parties, decisions to reduce the work force and decisions to determine class size, class staffing, schedules and academic calendar hours.
- h. The Authority's oversight powers are suspended through fiscal year 1999 (See Note 13).

Originally, certain elements of the 1995 Amendatory Act were set to expire in 1999. At that time, the legislation in effect prior to the 1995 Amendatory Act will again become effective. However, during the 1996 fall veto session, certain provisions of the 1995 reform law were made permanent based on the success of the reform efforts. The block grant funding structure, the consolidated property tax levy and school intervention powers will no longer expire in 1999.

NOTE 4. 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 Funds in any calendar year is limited to the lesser of tax rates 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 Funds that are not rate-limited are levied based on the estimated requirements for such Funds.

The CPS records its property taxes receivable as levied for each Fund net of an allowance for estimated uncollectible amounts. The allowance for loss for calendar years 1996 and 1997 is 2.5% of the gross levy for each fund. The CPS recorded \$19,189,914 of additional property tax revenues in fiscal year 1997 as a result of recent, more favorable rates of collection. This amount relates to calendar year 1995 tax levies collected in fiscal year 1997, which were previously estimated to be uncollectible.

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. In 1997, the installment due dates were March 1 and September 11. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. Collections of property tax installments are received by the County Treasurers, who distribute such receipts to the CPS. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied.

The 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 relevant levy year for taxes extended in years after 1995. Extensions can be increased above this limitation due to the following increases: assessed valuation attributable to new construction, referendum approval, or rate limitation.

CHICAGO PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4. PROPERTY TAXES (continued)

Legal limitations on tax rates and the rates extended in calendar years 1997 and 1996 are shown below.

	Maximum 1997 <u>Legal Limit</u>	Tax Rates Extended Per \$100 of EAV	
		<u>1997</u>	<u>1996</u>
General Operating Fund:			
Educational.....	(A)	\$3.202	\$3.196
Medicare.....	(B)	.023	0.034
Workers' and Unemployment Compensation/Tort Immunity	(B)	.222	0.254
Public Building Commission Operation and Maintenance	(B)	.709	0.594
Public Building Commission Fund.....	(B)	.171	0.173
		<u>\$4.327</u>	<u>\$4.251</u>

- A. The 1997 Educational tax rate is limited to the sum of \$3.07 per \$100 of EAV plus the difference (the "difference tax") between \$.50 per \$100 of EAV and the rate of taxes extended for the Authority (see Note 14).
- B. These tax rates are not limited by law, but are subject to the limits described previously.

See Note 3 for property tax changes in 1995 Amendatory Act.

NOTE 5. CASH AND INVESTMENTS

Cash and investments are controlled by the CPS' Treasury Department; however, custody is maintained by the Treasurer of the City of Chicago, who is the ex-officio Treasurer of the CPS under the Illinois School Code. Except for cash and investments in escrow or in the Capital Projects Funds, 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 General Operating Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and the Certificates of Participation. The cash and investments in escrow in the Capital Projects Funds represent the unspent proceeds from the Unlimited Tax General Obligation Bonds and the Certificates of Participation. Debt Service Funds' cash and investments in escrow are tax collections and receipts for the payment of principal and interest on PBC rentals. All cash and investments in escrow are deposited in trust accounts maintained by independent trustees. Cash and investments in the Capital Projects Funds are maintained in separate accounts designated by the City Treasurer for the exclusive use of the CPS. These amounts are used for the designated purpose of such Funds as described in Note 1.

The Chicago Public Schools Investment Policy dated September 27, 1995, 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 all depository account balances and certificates of deposit. Repurchase agreement collateral shall not be less than 102%. Collateral shall be only those securities authorized as allowable investments.

Cash

The Municipal Code of Chicago requires that cash be deposited only in chartered banks or savings and loan associations that have been designated by the Chicago City Council as a depository. The statutes 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 PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5. CASH AND INVESTMENTS (continued)

Chicago, to be designated depositories. Collateral, limited to securities of the City of Chicago or the U.S. Government and its agencies with an aggregate market value equal to 110% of amounts deposited with each institution, is also required.

At June 30, 1997, the book amount of the CPS' deposit accounts was (\$69,043,700), including cash and investments held for student activities of \$14,334,000. The bank balance at June 30, 1997, was \$23,731,000. This amount was covered by Federal depository insurance and by collateral held by the CPS' agent in the CPS' name.

Investments

Illinois Compiled Statutes authorize the CPS to invest in obligations guaranteed by the full faith and credit of the U.S. Government, certificates of deposit constituting direct obligations of banks, commercial paper rated within the three highest classifications established by at least two standard rating services, repurchase agreements that mature within 330 days, certain U.S. Government agency securities and certain State and municipal securities, the payment of which is protected by the power to levy taxes.

During the fiscal year ended June 30, 1997, deposits and repurchase agreements were supported by collateral with an aggregate market value equal to at least 110% and 102% respectively, of amounts deposited.

Investments as of June 30, 1997, are categorized to give an indication of the level of risk assumed by the CPS. Category 1 includes investments that are insured, registered or for which securities are held by the City Treasurer or the CPS' agent in the CPS' name.

(Thousands of Dollars)

	<u>Category 1</u>	<u>Carrying Amount and Cost Basis</u>	<u>Market Value</u>
Repurchase Agreements	\$ 11,615	\$ 811,615	\$ 811,633
U.S. Government Agency Securities	251,531	251,531	253,929
U.S. Government Obligations	47,334	47,334	47,401
Commercial Paper.....	24,317	24,317	25,000
Deposits.....	<u>3,974</u>	<u>3,974</u>	<u>3,992</u>
	<u>\$1,138,771</u>	<u>\$1,138,771</u>	<u>\$1,142,005</u>
Money Market Funds.....		89,114	89,114
U.S. Government Mutual Funds.....		<u>12,388</u>	<u>11,696</u>
Total Investments		<u>\$1,240,273</u>	<u>\$1,242,815</u>

NOTE 6. FIXED ASSETS

The following is a summary of changes in the Fixed Assets Account Group during fiscal year 1997 (\$000's):

	<u>Balance August 31, 1996</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Balance June 30, 1997</u>
Land.....	\$ 4,658	\$ 7,982	\$234	\$ 92,406
Buildings and Permanent Improvements.....	2,399,853	315,829	507	2,715,175
Equipment.....	<u>45,056</u>	<u>13,831</u>	<u>192</u>	<u>58,695</u>
Total Fixed Assets	<u>\$ 2,529,567</u>	<u>\$ 337,642</u>	<u>\$933</u>	<u>\$ 2,866,276</u>

CHICAGO PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7. FUND BALANCE

The CPS has designated \$216,100,000 to provide operating capital.

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

<u>Program</u>	<u>Reserved Amount</u>
State Chapter I.....	\$27,198
PBC Operations and Maintenance.....	22,002
Workers Compensation/Tort Immunity	5,138
Medicare	<u>6,656</u>
Total.....	<u>\$60,994</u>

The amount reserved for State Chapter I represents the unexpended and unencumbered portion of the 1997 State Chapter I allocation.

The reserved for debt service amount of \$90,913,000 in the General Operating Fund represents the debt service requirements for fiscal year 1998 for the Unlimited Tax General Obligation Bonds and the Certificates of Participation as well as the December 1, 1998, interest payment for the Unlimited Tax General Obligation Bonds.

In its fiscal year 1998 Budget (see Note 13), the CPS appropriated in its General Operating Fund \$184,079,000 of fund balances from amounts reserved for specific purposes, amounts reserved for debt service and amounts undesignated.

NOTE 8. LONG TERM OBLIGATIONS

a. *General Obligation Bonds*

In April 1997, the CPS issued \$500,000,000 in Unlimited Tax General Obligation Bonds. The proceeds from these bonds are to be used as part of the CPS' Capital Improvement Program. Net proceeds of \$458,047,000 were recorded in the Capital Improvement Program Fund and will be used for the renovation of buildings, educational enhancements, safety and operating efficiencies and new construction. The remaining net proceeds of \$33,003,000 related to future interest payments were recorded in the General Operating Fund. During fiscal year 1997, the CPS expended \$68,528,000 from the bond issue. In addition, as of June 30, 1997, the CPS has open contract and purchase commitments of \$127,586,000 related to the 1997 Bonds.

In April 1996, the CPS issued \$350,000,000 in Unlimited Tax General Obligation Bonds. The proceeds from these bonds are to be used as part of the CPS' Capital Improvement Program as described above. Net proceeds of \$319,537,000 were recorded in the Capital Improvement Program Fund. The remaining net proceeds of \$24,523,000 related to future interest payments were recorded in the General Operating Fund. During fiscal year 1997, the CPS expended \$239,878,000 from the bond issue. As of June 30, 1997, the CPS has open contract and purchase commitments of \$57,094,000, and expenditures to date from this bond issue are \$287,100,000.

The expenditures under Phase I and II of the Capital Improvement Program are expected to be \$1.4 billion. The CPS anticipates funding the remainder of the Capital Improvement Program through future bond issuances.

NOTE 8. LONG TERM OBLIGATIONS (continued)

The Unlimited Tax General Obligation Bonds will be repaid in the General Operating Fund from replacement tax revenue to the extent possible, and then from a separate tax levy associated with the bonds. The future payments are scheduled as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ -	\$ 54,020	\$ 54,020
1999	-	50,281	50,281
2000	3,930	50,183	54,113
2001	4,125	49,982	54,107
2002	9,610	49,641	59,251
2003-2028	<u>832,335</u>	<u>823,752</u>	<u>1,656,087</u>
Total	<u>\$850,000</u>	<u>\$1,077,859</u>	<u>\$1,927,859</u>

Interest rates on the bonds range from 4.80% to 6.75%.

b. Certificates of Participation

In December 1995, the CPS issued \$45,000,000 of Certificates of Participation. The net proceeds from these certificates were recorded in the Capital Equipment Fund and were used to fund equipment and textbook purchases. As of June 30, 1997, all proceeds have been expended.

The certificates will be repaid in the General Operating Fund from annual taxes levied from the CPS' Educational tax levy. The future payments are scheduled as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$11,000	\$1,278	\$12,278
1999	11,500	802	12,302
2000	<u>12,000</u>	<u>276</u>	<u>12,276</u>
Total	<u>\$34,500</u>	<u>\$2,356</u>	<u>\$36,856</u>

Interest rates on the certificates range from 3.70% to 4.60%.

c. Long-Term Rentals

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, funded by a tax levy (see Note 4), are established when the CPS approves such construction. The portion of the rentals required for the costs of construction, which is estimated to be the principal portion of debt issued by the PBC on behalf of the CPS, is recorded as a fixed asset addition in the year in which the project is initially approved. Total property underlying the PBC capitalized leases as of June 30, 1997, is approximately \$950,761,000.

Annual rentals exceed the PBC's requirements for debt service and other estimated expenses. The PBC can authorize rent surpluses to be used either to reduce future rental payments or to finance construction of other CPS projects. In fiscal year 1997, the surplus of \$495,000 was used to finance construction.

CHICAGO PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8. LONG TERM OBLIGATIONS (continued)

The future PBC lease rentals due at June 30, 1997, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>Lease Rentals</u>
1998	\$51,343
1999	51,345
2000	51,345
2001	51,316
2002	51,317
2002-2020	<u>911,166</u>
Total rentals	\$1,167,832
Less - Interest and other costs	<u>556,913</u>
Principal amount of rentals due...	<u>\$610,919</u>

d. Other Long-Term Obligations

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

	<u>Balance</u> <u>August 31, 1996</u>	<u>Net Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 1997</u>
Accrued Pension Costs (Note 9)	\$1,297,424	\$123,174	\$1,420,598
Accrued Sick Pay Benefits (Note 10)	74,862	(8,036)	66,826
Accrued Vacation Pay Benefits (Note 10)	8,145	1,771	9,916
Accrued Workers' Compensation Claims (Note 10)	13,027	—	13,027
Capitalized Lease Obligations	—	9,809	9,809
Tort Liabilities (Note 11)	3,703	—	3,703
Tax Objection Settlements (Note 11b)	391	—	391
Asbestos Abatement Loans from U.S. EPA	<u>22,012</u>	<u>(1,575)</u>	<u>20,437</u>
Total	<u>\$1,419,564</u>	<u>\$125,143</u>	<u>\$1,544,707</u>

The loans with the EPA to fund specific asbestos abatement projects are non-interest bearing and will be repaid over a 20 year period (see Note 11d).

No specific revenue sources are currently dedicated to provide for asbestos abatement loan retirements.

Equipment acquired under capital leases, stated at acquisition cost, is as follows (\$000's):

	<u>Leased</u> <u>Equipment</u>
Computers and Copy Machines	\$11,349
Vehicles	1,605
Total	<u>\$12,954</u>

NOTE 8. LONG TERM OBLIGATIONS (continued)

Lease Obligations as of June 30, 1997 are as follows (\$000's):

Fiscal Year(s)	Operating Leases	Capital Leases	Total
1998	\$4,732	\$4,116	\$8,848
1999	3,381	3,355	6,736
2000	2,661	2,342	5,003
2001	2,654	1,866	4,520
2002	2,386	278	2,664
Thereafter	2,188	—	2,188
Total Minimum Lease Payments	\$18,002	\$11,957	\$29,959
Less Imputed Interest		(2,148)	
Present Value of Net Minimum Lease Payments		\$9,809	

NOTE 9. PENSION PLANS

CERTIFIED TEACHERS AND ADMINISTRATORS -

Plan Description

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.

The current fiscal year covered payroll for the Pension Fund is \$1,286,500,000. Total CPS payroll for all employees is \$1,608,800,000 for the ten month period ended June 30, 1997.

The retirement, survivor and disability benefits provided by the Pension Fund are governed by Article 17 of the Illinois Pension Code. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. At June 30, 1997, there were approximately 32,824 participants in the Pension Fund, substantially all of whom 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 8% of salary, allocated as follows: 6.5% for retirement pension, .5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 1997, as in previous fiscal years, the CPS agreed to pay a portion (7% - \$87,452,000) of the required employees' contribution, which has been recorded as an expenditure in these financial statements. The funding of the 7% portion is provided by a portion of grant funds from the Federal government and other General Fund revenues. The remaining portion (1%) is withheld from teachers' salaries.

Funding Status

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases. The measure is the actuarial present value of credited projected benefits and is intended to assist in

CHICAGO PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 9. PENSION PLANS (continued)

assessing the funding status of the Pension Fund on a going-concern basis, the progress made in accumulating sufficient assets to pay benefits when due and to make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the Pension Fund.

The pension benefit obligation is determined as part of an actuarial valuation as of August 31, 1996, the date of the latest available report. The valuation method used in arriving at the actuarial liability is the projected unit credit actuarial cost method. Significant actuarial assumptions used include (1) a rate of return on the investment of present and future assets of 8% per year compounded annually, (2) projected salary increase of approximately 6% per year (4% for inflation and 2% for seniority and/or merit), (3) mortality rates based on the 1983 GAM Mortality Table, rated down 6 years for active members and (4) mortality rates based on the 1983 GAM Mortality Table, rated down 3 years for pensioners. The actuarial assumptions in the August 31, 1996, valuation were the same as those used in the August 31, 1996, valuation.

At August 31, 1996, the date of the latest available report, the unfunded pension benefit obligation is as follows (\$000's):

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$3,571,846
Current employees:	
Accumulated employee contributions.....	937,992
Employer-financed vested.....	1,057,762
Employer-financed nonvested.....	<u>1,382,232</u>
Total pension benefit obligation.....	6,949,832
Net assets available for benefits, at cost (market value at August 31, 1996 is \$6,719,241).....	<u>5,805,333</u>
Unfunded pension benefit obligation.....	<u>\$1,144,499</u>

Early retirement incentive programs were offered to employees both in fiscal years 1993 and 1994. As of June 30, 1997, the outstanding obligation of \$19,985,000 for the early retirement incentive programs is included in the Long-Term Obligations Account Group (see Note 8d). This obligation is required to be fully funded by 1999.

The CPS' employer-required contributions, with the exception of contributions from Federal funds, are not actuarially determined. Under an Illinois statute, the CPS is required to make employer payments to the Pension Fund in any fiscal year at least equal to the employees' cash contributions (see Note 11a). The CPS' employer-required contributions towards the cost of retirement benefits, and their related sources of funding, are as follows (\$000's):

Retirement benefit contribution:

An appropriation from the Illinois General Assembly.....	\$ 51,704
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs.....	9,137
Additional amounts from General Operating Funds to meet minimum obligation	14,907
Early retirement benefits.....	11,122
Interest and other.....	<u>50</u>
Total contributions.....	<u>\$86,920</u>

The above sources have been recorded as revenues and expenditures in the General Operating Fund.

NOTE 9. PENSION PLANS (continued)

Pursuant to the 1995 Amendatory Act, beginning in fiscal year 2000, the amounts due the Pension Fund are required to equal the actuarially determined amounts that will increase the funded ratio of the Pension Fund on a fair value basis to 90% by fiscal year 2045.

For the ten month period ended June 30, 1997, employee contributions are \$91,895,000 which is 7.1% of covered payroll. Employer contributions for the year are \$86,920,000 which is 7.0% of covered payroll. The CPS' total employer's share of pension cost, determined in accordance with Accounting Principles Board ("APB") Opinion No. 8, "Accounting for the Cost of Pension Plans," is as follows (\$000's):

Normal cost to the CPS.....	\$121,990
Interest on the unfunded actuarial liability.....	88,104
Total pension cost.....	<u>\$210,094</u>

The CPS' employer share of pension cost exceeded amounts funded by \$123,274,000. This excess equals the current year increase in the unfunded pension cost included in the Long-Term Obligations Account Group (see Note 8d).

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 financial statements reflect expenditures on both a functional and object basis. Teachers' pension expenditures reflected on an object basis include both the CPS' employer share of pension expenditures (\$86,920,000) and amounts incurred by the CPS for a portion of the required employees' pension contribution (\$87,452,000), which total \$174,372,000. 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.

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 except under certain conditions. As discussed earlier, under an Illinois statute, the CPS is required to make employer payments to the Pension Fund in any fiscal year at least equal to the employees' cash contributions. In addition, the CPS would be required to make additional payments to the Pension Fund if the Fund's total income from all sources in any year was less than its pension expenditures. Based on data available from the Pension Fund, no additional General Operating Fund appropriation is currently required for these purposes.

Trend Information

Trend information gives an indication of progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information may be found in the Public School Teachers' Pension and Retirement Fund of Chicago annual financial report. Trend information for the three years ended August 31, 1996 is as follows:

<u>Year ended August 31,</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Available Assets at cost as a % of Pension Benefit Obligation (PBO)	82.0%	81.0%	84.0%
Unfunded PBO as a % of Annual Covered Payroll	98.0%	107.0%	90.0%
CPS Contribution % of Annual Covered Payroll	14.3%	14.8%	6.7%
Available Assets at market as a % of PBO	86.3%	95.3%	96.7%

NOTE 9. PENSION PLANS *(continued)*

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: (1) a City of Chicago tax levy, (2) income from investments and (3) 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 1997, as in previous fiscal years, the CPS agreed to pay a portion (7% - \$21,633,000) 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. Such contributions, amounting to \$3,510,000, which are remitted to the Annuity Fund, have been recorded as revenues and expenditures in the General Operating Fund in fiscal 1997. Amounts reflected as career service pension expenditures in the accompanying financial statements, \$25,143,000 represent the portion of the required employees' contribution paid by the CPS and amounts funded under Federally-funded programs.

As of December 31, 1996, the date of the latest available report, the Annuity Fund had net assets of approximately \$3,483,000,000 and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately \$1,032,000,000, a decrease in the unfunded liability of \$211,000,000 from the preceding year. The CPS employs more than half of the 35,000 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 10. RISK MANAGEMENT AND NON-PENSION EMPLOYEE BENEFITS

The CPS is self-insured for the following types of claims:

- Casualty and public liability claims up to a deductible of \$10,000,000, above which there is insurance coverage up to \$100,000,000
- Automobile Liability
- Workers Compensation Claims
- For certain employees' health insurance costs (reimbursed to a provider on a cost plus basis)

NOTE 10. RISK MANAGEMENT AND NON-PENSION EMPLOYEE BENEFITS *(continued)*

As discussed in Note 11, 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 and recognizes its expenditures as the estimated current amounts to be paid from expendable available financial resources. As further discussed in Notes 1 and 4, these expenditures are met through an annual tax levy.

The CPS' estimate of liabilities for tort and workers compensation claims is based on reserves established by the respective trial attorneys or the claims administrators. The CPS accrues for the estimated workers' compensation and tort claims where there is a likelihood that an unfavorable outcome is probable. Expenditures are recognized for these claims as the amount accrued during the fiscal year that would normally be liquidated with expendable available financial resources. The remaining liabilities are reflected in the Long-Term Obligations Account Group (see Note 8d).

A liability of \$14,187,000 has been recorded in the General Operating Fund for estimated medical claims incurred but not reported as of June 30, 1997.

Under various agreements, the CPS is required to provide vacation and sick pay benefits for substantially all of its employees. Eligible employees can accumulate up to 275 sick days and 50 vacation days over their working careers. Employees who are at least age 60 and have attained 20 years of employment at retirement or death are entitled to receive, as additional cash compensation, a portion of their accumulated sick leave days. All employees are entitled to receive 100% of accumulated vacation days at their current salary rate. The CPS budgets an amount each year for these estimated payments to terminated employees which are recorded as payroll expenditures when paid.

The CPS' maximum contingent liability for future sick pay benefits not vested at June 30, 1997, is approximately \$282,974,000. The amount is not recorded in the accompanying financial statements. The amount of vested sick pay benefits and vacation pay benefits is reflected in the Long-Term Obligations Account Group (see Note 8d). This includes amounts due to employees who exercised early retirement options in fiscal 1993 and 1994 and to whom the CPS must pay out sick pay benefits over a period not to exceed five years.

NOTE 11. LITIGATION AND CONTINGENCIES

a. Pension Fund Litigation

On December 23, 1993, (amended July 19, 1994) the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") filed a complaint against the CPS (the "Amended Complaint"). As discussed in Note 10, Illinois statutes require that if the total amount paid to the Pension Fund from the CPS and from the State does not equal teacher contributions for any fiscal year, the CPS must pay a deficiency payment to the Pension Fund in the CPS' next fiscal year. The amended complaint alleges that, for fiscal years 1991, 1992 and 1993, the CPS incorrectly calculated the deficiency.

The amended complaint alleges that for fiscal year 1991, the CPS improperly counted as its employer contributions the \$7.8 million in employer contributions it paid for which it received Federal reimbursement.

NOTE 11. LITIGATION AND CONTINGENCIES (continued)

The amended complaint also alleges that the CPS improperly counted in fiscal year 1992 as its employer contributions, \$8.5 million in employer contributions it paid for which it received Federal reimbursement. In addition, the amended complaint alleges that contributions of \$1.6 million made, by retired teachers to the Pension Fund in fiscal year 1992 in respect to years of military service should have been, but were not, treated as employee contributions by the CPS. The amended complaint alleges that as a result of these two aspects, the CPS incurred a deficiency under Illinois statutes for fiscal year 1992 of \$10.1 million which it failed to pay during fiscal year 1993.

The amended complaint also alleges that a deficiency under the Pension Code arose for fiscal year 1993 in the amount of \$35,643,000 which must be funded by the CPS in its current fiscal year. The complaint alleges that the total deficiency includes \$10,158,000 attributable to amounts for which the CPS is reimbursed by the Federal government, and the \$17,000 attributable to the CPS' alleged failure to properly credit payments made by retired teachers for military service credit. The amended complaint also alleges that at the end of fiscal year 1993, the CPS improperly made a payment to its Fund to satisfy its employer contributions for teachers' early retirement. The implication of the amended complaint is that this payment did not count as an employer contribution in 1993.

The amended complaint seeks relief to compel the CPS to pay to the Pension Fund the sum of \$7.8 million for fiscal year 1991, \$12.6 million for fiscal year 1992 and \$35.6 million for fiscal year 1993, plus lost investment earnings. Any amounts paid by the CPS in settlement of this litigation are expected to be paid from the CPS' General Operating Fund. In the opinion of CPS management and legal counsel, the CPS' calculation of deficiencies and related actions were in accordance with applicable laws and regulations

On February 28, 1997, the Circuit Court granted the CPS' Motion for Summary Judgment on all issues in the case, except that it ruled that the CPS may owe the Fund interest for possible late payments of pension contributions for early retirement. No final judgment has been rendered by the Court in this case as of the date thereof. At this time, the outcome of this matter is uncertain. Therefore, CPS management and legal counsel are unable to predict the potential future impact, if any, of this suit. Accordingly, no provision for liabilities, if any, that may result from this suit has been made in the accompanying financial statements.

b. Property Tax Objection Suits

All tax objection suits related to 1988 and prior have been settled and paid. The remaining settlement of \$391,000 for 1989 is reflected in the Long-Term Obligations Account Group (see Note 8d). The settlement payments are made using property tax collections previously withheld by the County Treasurers and through future property tax collections.

Certain property tax objections have been filed for the years 1990 through 1995. The 1990 through 1995 tax objection suits involve material amounts for each of the years and in total. The objecting taxpayers have raised issues concerning the legality of expenditures incurred by the CPS in excess of appropriated amounts, estimates made in the preparation of annual budgets, the legality of certain tax levies, the use of PBC rent surpluses, the use of miscellaneous revenue sources, compliance with the Truth in Taxation Act and various other issues. In the opinion of legal counsel, a tax objection suit for 1996 is probable of assertion.

NOTE 11. LITIGATION AND CONTINGENCIES *(continued)*

The amount of liability, if any, relating to tax objection suits filed and those probable of assertion is not determinable at June 30, 1997. However, in the opinion of CPS management and legal counsel, the CPS' actions concerning its tax levies and extensions for the years 1990 through 1996 have been in accordance with applicable statutes and the final outcome of tax objection suits for the years 1990 through 1996 will not be material to the CPS' financial statements.

c. State Chapter 1 Litigation

Conception Noyola, et. al. v. The Chicago Board of Education, et. al. was filed as a class action lawsuit in 1988 against the CPS, the State Board of Education (the "State Board") and others. The suit was filed on behalf of the economically disadvantaged students, parents and other similarly situated, as well as an educational advocacy group. The plaintiffs allege that over a 15 year period, the CPS received in excess of \$2 billion in State Chapter 1 funds that was earmarked for low-income children, but was instead illegally spent to cover other costs of the CPS and for programs not directly related to serving the needs of low-income children. Plaintiffs seek declaratory and prospective injunctive relief, including an order directing the CPS to allocate an unspecified amount of funds over and above the current level of State Chapter 1 funds, to remedy the alleged prior underfunding. Consequently, an adverse decision against the CPS could include substantial monetary relief.

Initially, the CPS challenged the standing of the plaintiffs to bring this action and the CPS' position was sustained by the Circuit Court of Cook County. On appeal, however, the Circuit Court decision was reversed by the Illinois Appellate Court and the case was remanded to the Circuit Court for further proceedings. The plaintiffs' amended complaint was again dismissed, with the Circuit Court finding that plaintiffs did not have a private right to action under the School Code. The plaintiffs again appealed and in September, 1996, the Appellate Court reversed the dismissal of the complaint and held that a private right of action was available under the relevant provisions of the School Code. In January, 1997, the Illinois Supreme Court granted petitions for leave to appeal filed by the CPS and the State Board of Education seeking to overturn the ruling of the Appellate Court.

On October 23, 1997, the Illinois Supreme Court affirmed the ruling of the Appellate Court on the basis that plaintiffs were entitled to bring a Mandamus action against the CPS to compel appropriate allocation of State Chapter 1 funds. It is possible that the CPS will file a petition for rehearing before the court. At this time, the outcome of this matter is uncertain. Therefore, CPS management and legal counsel are unable to predict the potential future impact, if any, of this suit. In addition, management and legal counsel believe that the impact will be prospective in nature. Accordingly, no provision for liabilities, if any, that may result from this suit has been made in the accompanying financial statements.

d. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by the CPS through June 30, 1997, resulting from a review by a responsible government agency will not have a material effect on the CPS' financial statements at June 30, 1997.

e. Asbestos and Lead Abatement

Under Federal and State asbestos and lead abatement laws and guidelines, the 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

NOTE 11. LITIGATION AND CONTINGENCIES *(continued)*

expenditures required is uncertain, the CPS intends to comply with all Federal and State asbestos and lead abatement laws and guidelines.

f. Other Litigation and Claims

There are numerous other claims and pending legal actions involving the CPS, including actions concerned with civil rights of employees, workers' compensation, torts and other matters, arising out of the CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims at June 30, 1997, 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 the CPS' financial statements at June 30, 1997.

NOTE 12. BUDGETS

A balanced budget was adopted for fiscal year 1997 in July 1996 by the Reform Board of Trustees. The Reform Board designated \$268,200,000 to provide operating capital. A balanced budget was also adopted for fiscal year 1998 in August 1997 by the Reform Board of Trustees. The Reform Board has designated \$216,100,000 to provide operating capital

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 Authority was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. Additionally, the Authority issued \$573,000,000 of bonds and provided the CPS with \$450,431,000 for operating purposes in fiscal years 1980 and 1981.

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

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

The amount of Authority bonds outstanding at June 30, 1997, net of bonds advance refunded or defeased, is \$744,820,000. The Authority's bonds are not a direct or contingent obligation of the CPS.

CHICAGO PUBLIC SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)

The principal amount of general obligation bonds of the Authority at June 30, 1997 is shown below (\$000's).

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal and Sinking Fund Installments</u>	<u>Interest</u>	<u>Total</u>
1998.....	\$51,280	\$38,992	\$90,272
1999.....	54,475	36,162	90,637
2000.....	57,255	33,417	90,672
2001.....	60,230	30,479	90,709
2002-2009	<u>521,580</u>	<u>126,160</u>	<u>647,740</u>
	<u>\$744,820</u>	<u>\$265,210</u>	<u>\$1,010,030</u>

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

The Authority is a separate body politic and corporate and a unit of local government. 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. The 1995 Amendatory Act suspended the oversight powers of the Authority through 1999 (See Note 3).

APPENDIX E

Specimen Municipal Bond New Issue Insurance Policy

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Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number: 0010001

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

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Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that with respect to the Bonds maturing on _____, the amount insured under this Policy is that portion of the accreted value (as set forth in the bond documents under which the Bonds are issued) of said Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

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APPENDIX F

[PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL]

Upon the issuance of the Bonds, Co-Bond Counsel propose to issue their separate approving opinions substantially in the following form:

[To be dated the Date of Issuance of the Bonds]

We hereby certify that we have examined certified copy of the proceedings (the "Proceedings") of the Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois (the "Board"), passed preliminary to the issue by the Board of its fully registered Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998B-1, to the original principal amount of \$328,714,364.25 (the "Bonds"). The Bonds mature on December 1 of the years and are further described as follows:

MATURITY	ORIGINAL PRINCIPAL AMOUNT	ORIGINAL PRINCIPAL AMOUNT PER \$5,000 AT MATURITY	APPROXIMATE YIELD TO MATURITY
2009	\$17,825,043.20	\$3,035.60	4.550%
2010	16,843,470.35	2,867.95	4.650
2011	7,650,464.70	2,704.30	4.750
2012	10,383,600.00	2,545.00	4.850
2013	9,753,036.00	2,390.45	4.950
2014	9,215,088.00	2,258.60	5.000
2015	8,698,152.00	2,131.90	5.050
2016	8,202,228.00	2,010.35	5.100
2017	7,763,220.00	1,902.75	5.125
2018	7,344,204.00	1,800.05	5.150
2019	14,189,854.00	1,693.30	5.200
2020	20,685,953.00	1,608.55	5.200
2021	19,606,999.00	1,524.65	5.210
2022	18,623,852.00	1,448.20	5.210
2023	16,232,080.00	1,375.60	5.210
2024	15,378,940.00	1,303.30	5.220
2025	14,606,630.00	1,237.85	5.220
2026	13,872,670.00	1,175.65	5.220
2027	13,175,880.00	1,116.60	5.220
2028	21,211,000.00	1,060.55	5.220

MATURITY	ORIGINAL PRINCIPAL AMOUNT	ORIGINAL PRINCIPAL AMOUNT PER \$5,000 AT MATURITY	APPROXIMATE YIELD TO MATURITY
2029	\$20,145,000.00	\$1,007.25	5.220%
2030	19,134,000.00	956.70	5.220
2031	18,173,000.00	908.65	5.220

The Bonds are issued under and secured by that certain Trust Indenture dated as of September 1, 1998 (the "*Indenture*"), between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as Trustee (the "*Trustee*").

The Bonds are not subject to redemption prior to maturity.

To provide security for the Bonds, the Board will provide for the deposit of the Personal Property Replacement Tax Revenues, the Intergovernmental Agreement Revenues and the Pledged Taxes (each as defined below) directly with Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent (the "*Escrow Agent*"), for application to the payment of the Statutory Claims (as defined below) and the Compound Accreted Value of the Bonds and the outstanding Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 (the "*Series 1996 Bonds*"), the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the "*Series 1997 Bonds*"), the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the "*Series 1997A Bonds*") and the Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the "*Series 1998 Bonds*") (collectively, the "*Prior Alternate Bonds*") pursuant to the terms of a Master Alternate Bonds Escrow Agreement, dated as of November 1, 1997, as supplemented and amended, between the Board and the Escrow Agent (the "*Escrow Agreement*"). To provide additional security for the Series 1997A Bonds, the Series 1998 Bonds and the Bonds, the Board and the City of Chicago (the "*City*") have entered into an Intergovernmental Agreement, dated as of October 1, 1997 (the "*Intergovernmental Agreement*") providing for the deposit with the Escrow Agent of ad valorem taxes levied by the City against all of the taxable property in the City without limitation as to rate or amount for the purpose of providing funds (the "*Intergovernmental Agreement Revenues*") to pay the principal of and interest on, or Compound Accreted Value of, the Series 1997A Bonds, the Series 1998 Bonds and the Bonds, and all taxable property in the City is subject to the levy of such taxes.

Based upon the examination described above, we are of the opinion that:

1. The Proceedings show lawful authority for the issue of the Bonds under the laws of the State of Illinois now in force.
2. The Board has taken all necessary corporate action to authorize the execution and delivery of the Indenture, the Escrow Agreement and the Intergovernmental Agreement.

3. The Indenture, the Escrow Agreement and the Intergovernmental Agreement have each been duly authorized, executed and delivered by the Board, and assuming the due authorization, execution and delivery by, and the binding effect on, the respective other parties thereto, the Indenture, the Escrow Agreement and the Intergovernmental Agreement constitute the legal, valid and binding obligations of the Board, enforceable against the Board in accordance with their respective terms, except as enforceability may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally and by the availability of equitable remedies.

4. The Indenture creates the valid pledge which it purports to create of the Trust Estate (as defined in the Indenture) held or set aside or pledged under the Indenture, subject to the application thereof to the purposes and under the conditions permitted under the Indenture.

5. The Bonds have been duly and validly authorized and issued in accordance with law and the Indenture and the Bonds, to the amount named, are valid and legally binding upon the Board, except as limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights. The Bonds are payable from (i) together with the Series 1997A Bonds and the Series 1998 Bonds issued and outstanding on a parity therewith, the "*Pledged Revenues*," being (a) those amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act of the State of Illinois, as amended, or from such successor or replacement fund or act as may be enacted in the future (the "*Personal Property Replacement Tax Revenues*"), remaining after any required allocation thereof to provide for the payment of 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 said State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future (the "*Statutory Claims*"), and remaining after the required allocation thereof to provide for the payment of the Series 1996 Bonds and the Series 1997 Bonds and (b) the Intergovernmental Agreement Revenues; and (ii) the "*Pledged Taxes*," being the ad valorem taxes levied against all of the taxable property in the school district governed by the Board (the "*School District*") without limitation as to rate or amount for the purpose of providing funds in addition to the Pledged Revenues to pay the Compound Accreted Value of the Bonds, and all taxable property in the School District is subject to the levy of such taxes. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

6. The Board has taken all necessary action to cause (i) the Department of Revenue of the State of Illinois to deposit the Personal Property Replacement Tax Revenues directly with the Escrow Agent and (ii) the County Collectors of The Counties of Cook and DuPage, Illinois, to deposit the Pledged Taxes directly with the Escrow Agent, in each case for application pursuant to the Escrow Agreement and the Indenture. The City has taken all necessary action to cause the County Collectors of The Counties of Cook and DuPage, Illinois, to deposit the Intergovernmental Agreement Revenues directly with the Escrow Agent for application pursuant to the Escrow Agreement and the Indenture.

7. It is our opinion that, subject to the Board's compliance with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended. Interest on the Bonds is exempt from present federal income taxation, except to the extent that such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. In rendering our opinion on tax exemption, we have relied upon certifications of the Board with respect to certain material facts solely within the Board's knowledge relating to the application of the proceeds of the Bonds.

ALBERT, WHITEHEAD & MCGAUGH, P.C.

CHAPMAN AND CUTLER

APPENDIX G

Schedule of Compound Accreted Values

The Compound Accreted Values per \$5,000 of maturity amount are shown for each of the Capital Appreciation Bonds maturing December 1 in the following years.

<u>Date</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
October 28, 1998	3,035.60	2,867.95	2,704.30	2,545.00	2,390.45	2,258.60	2,131.90	2,010.35	1,902.75	1,800.05	1,693.30
December 1, 1998	3,048.15	2,880.06	2,715.96	2,556.20	2,401.19	2,268.85	2,141.67	2,019.65	1,911.60	1,808.46	1,701.29
June 1, 1999	3,117.49	2,947.02	2,780.47	2,618.19	2,460.62	2,325.57	2,195.75	2,071.15	1,960.58	1,855.03	1,745.52
December 1, 1999	3,188.42	3,015.54	2,846.51	2,681.69	2,521.52	2,383.71	2,251.19	2,123.97	2,010.82	1,902.79	1,790.90
June 1, 2000	3,260.96	3,085.66	2,914.11	2,746.72	2,583.93	2,443.30	2,308.03	2,178.13	2,062.35	1,951.79	1,837.47
December 1, 2000	3,335.14	3,157.40	2,983.32	2,813.33	2,647.88	2,504.38	2,366.31	2,233.68	2,115.20	2,002.05	1,885.24
June 1, 2001	3,411.02	3,230.81	3,054.18	2,881.55	2,713.42	2,566.99	2,426.06	2,290.64	2,169.40	2,053.60	1,934.26
December 1, 2001	3,488.62	3,305.93	3,126.71	2,951.43	2,780.58	2,631.17	2,487.32	2,349.05	2,224.99	2,106.48	1,984.55
June 1, 2002	3,567.99	3,382.80	3,200.98	3,023.01	2,849.40	2,696.95	2,550.13	2,408.95	2,282.01	2,160.73	2,036.15
December 1, 2002	3,649.17	3,461.45	3,277.00	3,096.32	2,919.92	2,764.37	2,614.52	2,470.38	2,340.49	2,216.36	2,089.09
June 1, 2003	3,732.19	3,541.93	3,354.83	3,171.40	2,992.19	2,833.48	2,680.54	2,533.38	2,400.46	2,273.44	2,143.41
December 1, 2003	3,817.10	3,624.28	3,434.51	3,248.31	3,066.25	2,904.32	2,748.22	2,597.98	2,461.98	2,331.98	2,199.14
June 1, 2004	3,903.94	3,708.55	3,516.08	3,327.09	3,142.14	2,976.93	2,817.61	2,664.23	2,525.07	2,392.02	2,256.31
December 1, 2004	3,992.75	3,794.77	3,599.59	3,407.77	3,219.91	3,051.35	2,888.76	2,732.17	2,589.77	2,453.62	2,314.98
June 1, 2005	4,083.59	3,883.00	3,685.08	3,490.41	3,299.60	3,127.63	2,961.70	2,801.84	2,656.14	2,516.80	2,375.17
December 1, 2005	4,176.50	3,973.29	3,772.60	3,575.06	3,381.27	3,205.83	3,036.49	2,873.29	2,724.20	2,581.61	2,436.92
June 1, 2006	4,271.51	4,065.67	3,862.20	3,661.75	3,464.96	3,285.97	3,113.16	2,946.56	2,794.01	2,648.08	2,500.28
December 1, 2006	4,368.69	4,160.20	3,953.93	3,750.55	3,550.72	3,368.12	3,191.77	3,021.70	2,865.61	2,716.27	2,565.29
June 1, 2007	4,468.08	4,256.92	4,047.84	3,841.51	3,638.60	3,452.32	3,272.36	3,098.76	2,939.04	2,786.22	2,631.99
December 1, 2007	4,569.74	4,355.90	4,143.98	3,934.66	3,728.66	3,538.63	3,354.99	3,177.78	3,014.35	2,857.96	2,700.42
June 1, 2008	4,673.70	4,457.18	4,242.40	4,030.08	3,820.94	3,627.10	3,439.70	3,258.81	3,091.60	2,931.55	2,770.63
December 1, 2008	4,780.03	4,560.81	4,343.16	4,127.81	3,915.51	3,717.78	3,526.56	3,341.91	3,170.82	3,007.04	2,842.67
June 1, 2009	4,888.78	4,666.85	4,446.31	4,227.92	4,012.42	3,810.72	3,615.60	3,427.13	3,252.08	3,084.47	2,916.58
December 1, 2009	5,000.00	4,775.36	4,551.91	4,330.45	4,111.73	3,905.99	3,706.90	3,514.53	3,335.41	3,163.90	2,992.41
June 1, 2010	-	4,886.39	4,660.02	4,435.46	4,213.50	4,003.64	3,800.50	3,604.15	3,420.88	3,245.37	3,070.21
December 1, 2010	-	5,000.00	4,770.70	4,543.02	4,317.79	4,103.73	3,896.46	3,696.06	3,508.55	3,328.94	3,150.04
June 1, 2011	-	-	4,884.00	4,653.20	4,424.65	4,206.32	3,994.85	3,790.31	3,598.45	3,414.66	3,231.94
December 1, 2011	-	-	5,000.00	4,766.04	4,534.17	4,311.48	4,095.72	3,886.97	3,690.67	3,502.58	3,315.97
June 1, 2012	-	-	-	4,881.62	4,646.39	4,419.27	4,199.14	3,986.09	3,785.24	3,592.78	3,402.19
December 1, 2012	-	-	-	5,000.00	4,761.39	4,529.75	4,305.17	4,087.73	3,882.24	3,685.29	3,490.65
June 1, 2013	-	-	-	-	4,879.24	4,643.00	4,413.88	4,191.97	3,981.72	3,780.19	3,581.40
December 1, 2013	-	-	-	-	5,000.00	4,759.07	4,525.33	4,298.87	4,083.76	3,877.53	3,674.52
June 1, 2014	-	-	-	-	-	4,878.05	4,639.60	4,408.50	4,188.40	3,977.37	3,770.06
December 1, 2014	-	-	-	-	-	5,000.00	4,756.75	4,520.91	4,295.73	4,079.79	3,868.08
June 1, 2015	-	-	-	-	-	-	4,876.86	4,636.20	4,405.81	4,184.84	3,968.65
December 1, 2015	-	-	-	-	-	-	5,000.00	4,754.43	4,516.71	4,292.60	4,071.84
June 1, 2016	-	-	-	-	-	-	-	4,875.67	4,634.51	4,403.14	4,177.71
December 1, 2016	-	-	-	-	-	-	-	5,000.00	4,753.27	4,516.52	4,286.33
June 1, 2017	-	-	-	-	-	-	-	-	4,875.07	4,632.82	4,397.77
December 1, 2017	-	-	-	-	-	-	-	-	5,000.00	4,752.12	4,512.12
June 1, 2018	-	-	-	-	-	-	-	-	-	4,874.48	4,629.43
December 1, 2018	-	-	-	-	-	-	-	-	-	5,000.00	4,749.80
June 1, 2019	-	-	-	-	-	-	-	-	-	-	4,873.29
December 1, 2019	-	-	-	-	-	-	-	-	-	-	5,000.00

<u>Date</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
October 28, 1998	1,608.55	1,524.65	1,448.20	1,375.60	1,303.30	1,237.85	1,175.65	1,116.60	1,060.55	1,007.25	956.70	908.65
December 1, 1998	1,616.14	1,531.86	1,455.04	1,382.10	1,309.47	1,243.71	1,181.22	1,121.89	1,065.57	1,012.02	961.23	912.95
June 1, 1999	1,658.16	1,571.76	1,492.95	1,418.10	1,343.65	1,276.17	1,212.05	1,151.17	1,093.38	1,038.43	986.32	936.78
December 1, 1999	1,701.27	1,612.70	1,531.84	1,455.05	1,378.72	1,309.48	1,243.68	1,181.22	1,121.92	1,065.54	1,012.06	961.23
June 1, 2000	1,745.50	1,654.72	1,571.74	1,492.95	1,414.70	1,343.66	1,276.14	1,212.05	1,151.20	1,093.35	1,038.48	986.32
December 1, 2000	1,790.89	1,697.82	1,612.69	1,531.84	1,451.63	1,378.73	1,309.45	1,243.68	1,181.25	1,121.89	1,065.58	1,012.06
June 1, 2001	1,837.45	1,742.05	1,654.70	1,571.75	1,489.52	1,414.71	1,343.63	1,276.14	1,212.08	1,151.17	1,093.39	1,038.48
December 1, 2001	1,885.23	1,787.43	1,697.81	1,612.69	1,528.39	1,451.64	1,378.70	1,309.45	1,243.72	1,181.21	1,121.93	1,065.58
June 1, 2002	1,934.24	1,833.99	1,742.03	1,654.70	1,568.29	1,489.53	1,414.68	1,343.63	1,276.18	1,212.05	1,151.21	1,093.39
December 1, 2002	1,984.53	1,881.77	1,787.41	1,697.81	1,609.22	1,528.40	1,451.61	1,378.70	1,309.49	1,243.68	1,181.26	1,121.93
June 1, 2003	2,036.13	1,930.79	1,833.98	1,742.04	1,651.22	1,568.30	1,489.50	1,414.68	1,343.66	1,276.14	1,212.09	1,151.21
December 1, 2003	2,089.07	1,981.08	1,881.75	1,787.42	1,694.32	1,609.23	1,528.37	1,451.61	1,378.73	1,309.45	1,243.73	1,181.26
June 1, 2004	2,143.39	2,032.69	1,930.77	1,833.98	1,738.54	1,651.23	1,568.27	1,489.50	1,414.72	1,343.63	1,276.19	1,212.09
December 1, 2004	2,199.12	2,085.64	1,981.07	1,881.75	1,783.92	1,694.33	1,609.20	1,528.37	1,451.64	1,378.70	1,309.50	1,243.73
June 1, 2005	2,256.30	2,139.97	2,032.68	1,930.77	1,830.48	1,738.55	1,651.20	1,568.26	1,489.53	1,414.68	1,343.67	1,276.19
December 1, 2005	2,314.96	2,195.72	2,085.63	1,981.07	1,878.25	1,783.93	1,694.30	1,609.20	1,528.41	1,451.61	1,378.74	1,309.50
June 1, 2006	2,375.15	2,252.92	2,139.96	2,032.68	1,927.28	1,830.49	1,738.52	1,651.20	1,568.30	1,489.50	1,414.73	1,343.67
December 1, 2006	2,436.91	2,311.61	2,195.71	2,085.63	1,977.58	1,878.26	1,783.90	1,694.30	1,609.23	1,528.37	1,451.65	1,378.74
June 1, 2007	2,500.27	2,371.83	2,252.90	2,139.96	2,029.20	1,927.29	1,830.46	1,738.52	1,651.24	1,568.26	1,489.54	1,414.73
December 1, 2007	2,565.28	2,433.61	2,311.59	2,195.71	2,082.16	1,977.59	1,878.23	1,783.90	1,694.33	1,609.20	1,528.42	1,451.65
June 1, 2008	2,631.97	2,497.01	2,371.81	2,252.91	2,136.50	2,029.21	1,927.26	1,830.46	1,738.56	1,651.20	1,568.31	1,489.54
December 1, 2008	2,700.41	2,562.05	2,433.60	2,311.60	2,192.27	2,082.17	1,977.56	1,878.23	1,783.93	1,694.30	1,609.24	1,528.42
June 1, 2009	2,770.62	2,628.80	2,496.99	2,371.81	2,249.49	2,136.51	2,029.18	1,927.26	1,830.49	1,738.52	1,651.25	1,568.31
December 1, 2009	2,842.65	2,697.28	2,562.04	2,433.60	2,308.20	2,192.28	2,082.14	1,977.56	1,878.27	1,783.89	1,694.34	1,609.24
June 1, 2010	2,916.57	2,767.54	2,628.78	2,496.99	2,368.44	2,249.50	2,136.48	2,029.17	1,927.29	1,830.46	1,738.57	1,651.25
December 1, 2010	2,992.40	2,839.63	2,697.26	2,562.04	2,430.26	2,308.21	2,192.25	2,082.14	1,977.60	1,878.23	1,783.94	1,694.34
June 1, 2011	3,070.20	2,913.61	2,767.53	2,628.78	2,493.69	2,368.45	2,249.47	2,136.48	2,029.21	1,927.26	1,830.50	1,738.57
December 1, 2011	3,150.03	2,989.51	2,839.62	2,697.26	2,558.78	2,430.27	2,308.18	2,192.25	2,082.17	1,977.56	1,878.28	1,783.94
June 1, 2012	3,231.93	3,067.38	2,913.59	2,767.53	2,625.57	2,493.70	2,368.43	2,249.47	2,136.52	2,029.17	1,927.30	1,830.50
December 1, 2012	3,315.96	3,147.29	2,989.49	2,839.62	2,694.09	2,558.79	2,430.24	2,308.18	2,192.28	2,082.14	1,977.61	1,878.28
June 1, 2013	3,402.18	3,229.27	3,067.37	2,913.60	2,764.41	2,625.57	2,493.67	2,368.42	2,249.50	2,136.48	2,029.22	1,927.30
December 1, 2013	3,490.64	3,313.40	3,147.28	2,989.50	2,836.56	2,694.10	2,558.76	2,430.24	2,308.22	2,192.25	2,082.18	1,977.61
June 1, 2014	3,581.39	3,399.71	3,229.26	3,067.37	2,910.60	2,764.42	2,625.55	2,493.67	2,368.46	2,249.47	2,136.53	2,029.22
December 1, 2014	3,674.51	3,488.27	3,313.39	3,147.28	2,986.57	2,836.57	2,694.08	2,558.76	2,430.28	2,308.18	2,192.29	2,082.19
June 1, 2015	3,770.05	3,579.14	3,399.70	3,229.27	3,064.52	2,910.61	2,764.39	2,625.55	2,493.71	2,368.42	2,249.51	2,136.53
December 1, 2015	3,868.07	3,672.35	3,488.26	3,313.39	3,144.50	2,986.58	2,836.55	2,694.07	2,558.79	2,430.24	2,308.22	2,192.29
June 1, 2016	3,968.64	3,768.05	3,579.13	3,399.70	3,226.58	3,064.53	2,910.58	2,764.39	2,625.58	2,493.67	2,368.47	2,249.51
December 1, 2016	4,071.83	3,866.20	3,672.37	3,488.27	3,310.79	3,144.51	2,986.55	2,836.54	2,694.11	2,558.76	2,430.29	2,308.23
June 1, 2017	4,177.70	3,966.92	3,768.04	3,579.14	3,397.20	3,226.58	3,064.50	2,910.58	2,764.43	2,625.55	2,493.72	2,368.47
December 1, 2017	4,286.32	4,070.26	3,866.20	3,672.37	3,485.87	3,310.80	3,144.49	2,986.55	2,836.58	2,694.07	2,558.80	2,430.29
June 1, 2018	4,397.77	4,176.29	3,966.91	3,768.04	3,576.86	3,397.21	3,226.56	3,064.50	2,910.61	2,764.39	2,625.59	2,493.72
December 1, 2018	4,512.11	4,285.08	4,070.25	3,866.20	3,670.21	3,485.88	3,310.78	3,144.49	2,986.58	2,836.54	2,694.12	2,558.80
June 1, 2019	4,629.43	4,396.71	4,176.28	3,966.91	3,766.01	3,576.86	3,397.19	3,226.56	3,064.53	2,910.58	2,764.43	2,625.59
December 1, 2019	4,749.80	4,511.24	4,285.07	4,070.25	3,864.30	3,670.22	3,485.86	3,310.78	3,144.52	2,986.55	2,836.59	2,694.12
June 1, 2020	4,873.29	4,628.76	4,396.70	4,176.28	3,965.16	3,766.01	3,576.84	3,397.19	3,226.59	3,064.50	2,910.62	2,764.43
December 1, 2020	5,000.00	4,749.34	4,511.24	4,285.07	4,068.66	3,864.31	3,670.20	3,485.86	3,310.80	3,144.49	2,986.59	2,836.59
June 1, 2021	--	4,673.06	4,628.75	4,396.70	4,174.85	3,965.17	3,766.00	3,576.84	3,397.22	3,226.56	3,064.54	2,910.62
December 1, 2021	--	5,000.00	4,749.34	4,511.24	4,283.81	4,068.66	3,864.29	3,670.20	3,485.88	3,310.78	3,144.52	2,986.59
June 1, 2022	--	--	4,873.06	4,628.75	4,395.62	4,174.85	3,965.15	3,766.00	3,576.87	3,397.19	3,226.60	3,064.54
December 1, 2022	--	--	5,000.00	4,749.33	4,510.35	4,283.82	4,068.65	3,864.29	3,670.22	3,485.86	3,310.81	3,144.52
June 1, 2023	--	--	--	4,873.06	4,628.07	4,395.63	4,174.84	3,965.15	3,766.02	3,576.84	3,397.22	3,226.60
December 1, 2023	--	--	--	5,000.00	4,748.87	4,510.35	4,283.81	4,068.65	3,864.31	3,670.20	3,485.89	3,310.81
June 1, 2024	--	--	--	--	4,872.82	4,628.08	4,395.62	4,174.84	3,965.17	3,766.00	3,576.87	3,397.22
December 1, 2024	--	--	--	--	5,000.00	4,748.87	4,510.35	4,283.81	4,068.66	3,864.29	3,670.23	3,485.89
June 1, 2025	--	--	--	--	--	4,872.82	4,628.07	4,395.62	4,174.86	3,965.15	3,766.02	3,576.87
December 1, 2025	--	--	--	--	--	5,000.00	4,748.87	4,510.35	4,283.82	4,068.65	3,864.32	3,670.23
June 1, 2026	--	--	--	--	--	--	4,872.82	4,628.07	4,395.63	4,174.84	3,965.18	3,766.02
December 1, 2026	--	--	--	--	--	--	5,000.00	4,748.87	4,510.36	4,283.81	4,068.67	3,864.32
June 1, 2027	--	--	--	--	--	--	--	4,872.82	4,628.08	4,395.62	4,174.86	3,965.18
December 1, 2027	--	--	--	--	--	--	--	5,000.00	4,748.87	4,510.35	4,283.82	4,068.67
June 1, 2028	--	--	--	--	--	--	--	--	4,872.82	4,628.07	4,395.63	4,174.86
December 1, 2028	--	--	--	--	--	--	--	--	5,000.00	4,748.87	4,510.36	4,283.82
June 1, 2029	--	--	--	--	--	--	--	--	--	4,872.82	4,628.08	4,395.63
December 1, 2029	--	--	--	--	--	--	--	--	--	5,000.00	4,748.87	4,510.36
June 1, 2030	--	--	--	--	--	--	--	--	--	--	4,872.82	4,628.08
December 1, 2030	--	--	--	--	--	--	--	--	--	--	5,000.00	4,748.87
June 1, 2031	--	--	--	--	--	--	--	--	--	--	--	4,872.82
December 1, 2031	--	--	--	--	--	--	--	--	--	--	--	5,000.00

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