NEW ISSUE - BOOK ENTRY **RATINGS: See "RATINGS" herein**

In the opinion of Pugh, Jones & Johnson, P.C. and Burke Burns & Pinelli, Ltd., both of Chicago, Illinois, Co-Bond Counsel, subject to compliance with certain covenants made by the Board to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest on the Bonds described herein is excludable from gross income of the owners thereof for Federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be taken into account in computing the corporate alternative minimum tax. Interest on the Bonds is not exempt from income taxes currently imposed by the State of Illinois. See the caption "TAX MATTERS" herein regarding a description of other tax considerations.

$48,970,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2002A

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

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

Interest on the Bonds will be payable on each June 1 and December 1, commencing June 1, 2003. Principal of, redemption premium, if any, and interest on the Bonds will be paid by Cole Taylor Bank, 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 subject to optional redemption prior to maturity as described in this Official Statement.

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

The Bonds will be payable from Pledged City Note Revenues (as described herein) and Pledged Taxes (as described herein). To the extent that the Pledged City Note Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the School District governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from all Funds, Accounts and Sub-Accounts 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 scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE."

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

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinions of Pugh, Jones & Johnson, P.C. and Burke Burns & Pinelli, Ltd., both of 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 Rosenman, Chicago, Illinois; and for the Underwriters by their Co-Counsel, Kutak Rock Illinois LLC and Greene and Letts, both of Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about September 24, 2002.

George K. Baum & Company

M.R. Beal & Company **Jackson Securities, Inc.**

September 12, 2002

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

Maturity December 1	Amount	Interest Rate	Yield	Maturity December 1	Amount	Interest Rate	Yield
2005	$ 580,000	3.00%	2.00%	2014	$3,150,000	5.00%	3.90%
2006	600,000	3.00	2.35	2015	3,310,000	5.00	4.04
2007	615,000	3.00	2.68	2016	3,475,000	5.00	4.12
2008	1,135,000	3.25	3.00	2017	3,645,000	5.00	4.23
2009	1,675,000	3.50	3.23	2018	3,830,000	5.25	4.30
2010	425,000	3.75	3.45	2019	4,025,000	5.25	4.40
2010	1,400,000	5.00	3.45	2020	4,240,000	5.25	4.50
2011	2,315,000	3.75	3.55	2021	4,460,000	5.00	4.65
2012	2,405,000	4.00	3.65	2022	4,685,000	5.00	4.75
2013	3,000,000	5.00	3.78				

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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 are available for inspection at the offices of the Board and the Trustee. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information contained herein is provided as of the date hereof and is subject to change.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE 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 B and unless otherwise indicated shall have the respective meanings set forth herein.

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

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$48,970,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2002A

INTRODUCTION

General

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of its $48,970,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2002A (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. 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 resolution adopted by the Board on July 24, 2002 (the "2002 Authorization") authorizing the issuance of alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act ("Alternate Bonds"), in an amount not to exceed $500,000,000 and a resolution adopted by the Board on August 28, 2002 (the "Bond Resolution" and, together with the 2002 Authorization, the "Resolutions"), and a Trust Indenture, dated as of September 1, 2002 (the "Indenture"), by and between the Board and Cole Taylor Bank, Chicago, Illinois, as trustee (the "Trustee"). The Bonds will be secured by and are payable (i) from the Pledged City Note Revenues (as defined below), (ii) to the extent that the Pledged City Note Revenues, together with investment earnings thereon, are insufficient to pay the debt service on the Bonds, from the ad valorem taxes levied by the Board, pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the 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 City Note Revenues consist of payments made by the City of Chicago (the "City") to the Board under its Tax Increment Allocation Revenue Note (24th/Michigan Redevelopment Project), Series 2002A (the "City Note"). For additional information, see "SECURITY FOR THE BONDS – General" and "--The City Note and the Intergovernmental Agreement" below.

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

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

Prior Alternate Bonds

The Bonds are the seventeenth series of Alternate Bonds issued by the Board pursuant to the Debt Reform Act to finance its Capital Improvement Program. All 16 series of Alternate Bonds previously issued (the "Prior Alternate Bonds") were issued in the aggregate principal amount of approximately $3.2 billion and are payable from sources other than the Pledged City Note Revenues. In the event such other sources are insufficient or not available for payment of the Prior Alternate Bonds, the Prior Alternate Bonds are payable from ad valorem taxes levied by the Board. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Outstanding Debt Obligations." Certain of the Prior Alternate Bonds were issued as "qualified zone academy bonds" pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Capital Improvement Program."

THE BONDS

General

The Bonds will be dated the date of original issuance thereof and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Bonds will be issued only as fully registered bonds in denominations of $5,000 or integral multiples thereof. The Bonds will bear interest from the date of original issuance thereof, payable on June 1 and December 1 of each year, commencing June 1, 2003, at the rates set forth on the cover page hereof. Each Bond will bear interest from the later of its date or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of such Bond is paid or duly provided for. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on each Bond will be payable on each interest payment date to the person in whose name the Bond is registered at the close of business on the fifteenth day of the calendar month next preceding each interest payment date. See "APPENDIX B - Summary of Certain Provisions of the Indenture."

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

Additional Bonds Payable From Pledged City Note Revenues

The Board may issue Additional Bonds from time to time for the purpose of refunding any Outstanding Bonds or Additional Bonds payable from all or any portion of the Pledged City Note Revenues or any other source of payment which may be pledged under the Debt Reform Act. Any Additional Bonds payable from Pledged City Note Revenues shall share ratably and equally in the Pledged City Note Revenues with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds.

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

Redemption

Optional Redemption. The Bonds maturing on or after December 1, 2013 are subject to redemption prior to maturity, at the option of the Board, from any available funds, on any date on and after December 1, 2012 in whole or in part, and if in part, in any order of maturity designated by the Board, and if less than an entire maturity, in Authorized Denominations, selected by lot by the Trustee as hereinafter provided, at the redemption price of par plus accrued interest to the date fixed for redemption.

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

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

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

Bond Registration and Transfers

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

Book-Entry Only System

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides assets servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participant's accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the

Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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

Insurer Consent for Amendments to Indenture

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

Estimated Sources and Uses of Funds

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

Sources:	
Bond Proceeds:	
Par Amount	$48,970,000.00
Net Premium	2,748,775.30
Total Sources of Funds	$51,718,775.30
Uses:	
Deposit to the Project Fund for the Capital Improvement Program	$46,944,403.00
Capitalized Interest[1]	3,878,761.00
Costs of Issuance[2]	895,611.30
Total Uses of Funds	$51,718,775.30

(1) Interest on the Bonds is capitalized through June 1, 2004.
(2) Includes bond insurance premium and Underwriters' discount.

SECURITY FOR THE BONDS

General

The Bonds will be issued pursuant to the School Code, the Debt Reform Act, the Resolutions 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, both as to principal and interest, from any moneys, revenues, receipts, income, assets or funds of the Board legally available for such purpose.

The Bonds will be payable from and secured by a pledge of (i) all payments of principal of and interest on the City Note, whenever received (the "Pledged City Note Revenues"), which amounts, together with cumulative investment earnings thereon, are intended to provide for the payment of the Bonds and the provision of not less than an additional .25 times Debt Service on the Bonds in such year, (ii) the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "Pledged Taxes"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As to the lien on the Pledged City Note Revenues, the Bonds will be payable on a parity basis with any Additional Bonds. The Bonds are the first series of bonds issued under the 2002 Authorization. As described herein, the Pledged Taxes will be collected only as and to the extent that the Pledged City Note Revenues, together with investment earnings thereon, are not available in sufficient amounts to pay the debt service on the Bonds.

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

The City Note and the Intergovernmental Agreement

The Tax Increment Allocation Revenue Note (24^{th}/Michigan Redevelopment Project), Series 2002A of the City of Chicago is a draw-down note in the maximum principal amount of $47,000,000. Payments of principal of and interest on the City Note are due in accordance with a schedule attached thereto, with the final maturity date being December 1, 2021. The City Note will be issued by the City pursuant to the terms of the Intergovernmental Agreement between the City of Chicago, by and through its Department of Planning and Development, and the Board of Education of the City of Chicago regarding the National Teachers Academy, dated as of April 1, 2002 (the "Intergovernmental Agreement"). The City Note has been structured so that payments thereunder, together with investment earnings thereon, will be sufficient to provide for the payment of the Bonds and not less than an additional .25 times annual debt service on the Bonds in each year.

The Intergovernmental Agreement provides that the City will issue the City Note to the Board upon the issuance by the Board of the Bonds. The City is issuing the City Note to induce the Board to construct the National Teachers Academy at 22^{nd} Street and Federal Street in the City (the "Project"). The Project will be located in the City's 24^{th}/Michigan Redevelopment

Project Area, which is one of the City's tax increment financing districts. Pursuant to the Intergovernmental Agreement, the City will pledge its tax increment (the "City Increment") from the 24^{th}/Michigan Redevelopment Project Area to the payment of the City Note. The City will also pledge the City Increment from two contiguous Redevelopment Project Areas, the Michigan/Cermak Redevelopment Project Area and the River South Redevelopment Project Area, to the payment of the City Note pursuant to its rights under the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1 *et seq.*, to use City Increment from a Redevelopment Project Area for eligible redevelopment project costs in another Redevelopment Project Area that is contiguous to (or separated only by a public right of way from) the Redevelopment Project Area from which the City Increment is received (the "Transfer Rights"). The City also has the option, in its sole discretion, to use City Increment from the Chinatown Basin Redevelopment Project Area and the Near South Redevelopment Project Area pursuant to its Transfer Rights to make payments on the City Note. The City Increment pledged to the payment of the City Note is referred to herein as the "Pledged Increment." The City, with the concurrence of the Board, may subordinate the Board's prior right to receive Pledged Increment in connection with the City Note to other obligations of the City to be paid from City Increment, if the City and the Board reasonably agree, based on historical and anticipated City Increment, that payment of the City Note will not be materially adversely affected by such subordination. The Board has covenanted in the Indenture to provide, collect and apply the Pledged City Note Revenues, together with investment earnings thereon, to the payment of the Bonds and the provision of not less than an additional .25 times debt service. See "Covenants Regarding Pledged City Note Revenues, the City Note and the Intergovernmental Agreement" in APPENDIX B hereto.

The principal amount of the City Note shall not exceed the Board's actual expenditures to construct the Project, and in no event shall exceed $47,000,000. The Board may increase the outstanding principal amount of the City Note from time to time by filing with the City certificates of expenditure ("Certificates of Expenditure"), supported by documentation establishing that qualifying capital expenditures on the Project were actually incurred by the Board.

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

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

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

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds. The Pledged Taxes are ad valorem taxes, pursuant to the Bond Resolution, levied against all of the taxable property in the School District, without limitation as to rate or amount. However, based on projected receipts of Pledged City Note Revenues, together with investment earnings thereon, the Board anticipates that all Pledged Taxes will be abated. To the extent that the Pledged City Note Revenues, together with investment earnings thereon, are not available in sufficient amounts, the debt service on the Bonds is payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage attributable to the levy of the Pledged Taxes for the payment of the debt service on the Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the Indenture. For additional information concerning the levy and collection of the Pledged Taxes, see "THE REAL PROPERTY TAX SYSTEM -- Tax Levy -- Collection."

Payment of Debt Service on the Bonds

The Indenture 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 City Note Revenues Account," the "Pledged Taxes Account" and the "Bond Payment Account." The Pledged City Note Revenues Account consists of the Capitalized Interest Sub-Account, Pledged City Note Revenues Sub-Account and the Board Contribution Sub-Account, and the Bond Payment Account consists of the Interest Sub-Account and the Principal Sub-Account.

On February 2 of each year, commencing February 2, 2003 (each such date being referred to as a "Deposit Date") the Trustee shall transfer first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Capitalized Interest Sub-Account, third from the Pledged City Note Revenues Sub-Account and last from the Board Contribution Sub-Account (i) to the Interest Sub-Account the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; and (ii) to the Principal Sub-Account an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on the next December 1, less the amount then on deposit in the Principal Sub-Account and available for such payment.

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

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

Indenture -- Funds, Accounts and Sub-Accounts

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

Bonds Are Obligations of the Board

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

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy.

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

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

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

MBIA

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "Bond Insurance." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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

MBIA Information

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2002, MBIA had admitted assets of $8.7 billion (unaudited), total liabilities of $5.7 billion (unaudited), and total capital and surplus of $3.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

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

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

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

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

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

Michael W. Scott is President of the School Board. Mr. Scott is Vice President of Local Government Affairs for AT&T Broadband. He was formerly the Executive Director of the Lawndale People's Planning and Action Conference, then Director of Community Development and ultimately, Vice President of Pyramidwest Development Corporation. He also has served under the late Mayor Harold Washington as Special Assistant to the Mayor, Director for the Mayor's Office of Special Events, and Chief Cable Administrator for the City of Chicago's Office of Communication. He is a former member of the Board and has chaired its committee on real estate. Mr. Scott currently serves on the board of directors for a number of civic and charitable organizations, including, among others, Mount Sinai Hospital; Adler Planetarium; Better Boys Foundation; Chicago Historical Society; Community Bank of Lawndale; and the Art Institute of Chicago.

Avis LaVelle is Vice President of the School Board. Ms. LaVelle is Senior Partner for Business Development at the Foster Group. She was formerly Vice President of Government and Public Affairs for the University of Chicago Hospitals and prior to that, Vice President of

Communications for Waste Management, Inc. and 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, Ms. 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.

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

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

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

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

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

Member	Term Expires
Michael W. Scott, President	June 30, 2003
Avis LaVelle, Vice President	June 30, 2003
Norman R. Bobins	June 30, 2006
Dr. Tariq Butt	June 30, 2003
Clare Munana	June 30, 2006
Gene R. Saffold	June 30, 2003

At the expiration of the term of each member, a successor shall be appointed by the Mayor for a four-year term from July 1 of the year in which the term commences. Any vacancy shall be filled by appointment of the Mayor for the unexpired term.

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

Central Administration

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

Chief Executive Officer	Arne Duncan
Chief Education Officer	Barbara Eason-Watkins
Chief Operating Officer	Timothy W. Martin
Chief Fiscal Officer	Kenneth C. Gotsch
Acting Chief Purchasing Officer	Anita Rocha
General Counsel	Marilyn F. Johnson

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

Barbara Eason-Watkins is the Chief Education Officer of the Board. Ms. Eason-Watkins is a nationally-recognized school principal from Chicago's Woodlawn community who has spent her entire 28-year professional career in the schools, working with students, teachers and parents. Since 1988, Ms. Eason-Watkins has been principal of McCosh Elementary School in Chicago. A native of Detroit, Michigan, she received a Bachelor's degree in elementary education from the University of Michigan, a Masters degree in educational administration and supervision from Chicago State University, and a doctorate in education, with a specialty in curriculum and instruction, from Loyola University, Chicago.

Timothy W. Martin is the Chief Operating Officer of the Board. Prior to his current appointment, he served as Chief Highway Engineer and Deputy Commissioner at the City's Department of Transportation. Mr. Martin has also served as Chief Transportation Engineer for the City's 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. Prior to his current appointment, he served both as the Deputy Director for the City's 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.

Anita Rocha is the Acting Chief Purchasing Officer of the Board. Ms. Rocha previously served the Board as the Deputy Chief Purchasing Officer and Director of the Bureau of Compliance and Vendor Services. Prior to her service with the Board, Ms. Rocha served for 14 years with the State of Illinois, including as the Contract Administrator and Affirmative Action Officer and the Deputy Chief of the Crime Victims Bureau for the Office of the Illinois Attorney General. She has a Bachelor's degree in pre-law from the University of Illinois, a Masters of Public Administration from Baruch College, City University of New York and has completed graduate work in Planning and Policy analysis at the University of Illinois.

Marilyn F. Johnson is General Counsel to the Board. Prior to her current appointment, Ms. Johnson served as General Counsel for the Chicago Housing Authority and as Deputy Corporation Counsel and Chief Assistant Corporation Counsel for the City's 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 600 attendance centers consisting of 492 elementary schools, 93 high schools and 15 charter schools serving 437,618 children.

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

School Year	Elementary School	High School	Combined
2001/2002	338,445	99,173	437,618
2000/2001	339,281	96,189	435,470
1999/2000	336,631	95,119	431,750
1998/1999	335,539	95,546	431,085
1997/1998	329,574	98,610	428,184

Capital Improvement Program

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

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

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

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

Program Management. The Board utilizes a broad-based priority system for structuring the Capital Improvement Program, including architectural assessments that categorize capital projects by need. To date, the Capital Improvement Program has addressed primarily the highest priority exterior envelope projects such as windows, roofs and masonry work. With many of these projects completed or underway, the next phase will be addressing high priority, interior projects such as electrical and heating/air ventilation systems.

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

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

Summary of Work Performed and Expenditures to Date. Since the program's inception, over 1,300 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 38,000 additional students. These new classrooms are distributed throughout 17 new schools, 4 replacement schools, 30 additions and 27 annexes. Additionally, 2,024 renovations have been completed to date including new roofs at 331 schools, new windows for 343 schools, and masonry work for 321 schools. Over 490 schools have their local area networks in place. The Board anticipates undertaking a similar number of renovation projects and installing local area networks in its remaining schools in the coming years. Finally, approximately 287 play lots and 15 athletic fields have been renovated to provide students with safe facilities for play and sports.

To finance the Capital Improvement Program, the Board has issued its Alternate Bonds, which are outstanding in the aggregate principal amount of approximately $2.94 billion. As of June 30, 2002, approximately $2.9 billion of proceeds have been spent, and substantially all of the net proceeds remaining have been "encumbered" (i.e., obligated for future expenditure on identified projects).

Projects Financed by the Bonds. The proceeds of the Bonds will be used to finance additional components of the Capital Improvement Program. The acquisition, construction, repair, renovation, rehabilitation and equipping of school facilities and sites financed with the proceeds of the Bonds will be implemented by the Board.

Future Financings. In addition to the Bonds, during calendar year 2002, the Board may issue additional bonds to continue implementation of the Capital Improvement Program. Further, consistent with applicable provisions of State law, the Board has the authority to adopt additional authorizing resolution(s) under which some of these bonds may be issued.

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

Educational Reform Initiatives

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

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

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

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

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

Educational Results. There continue to be many positive educational trends at CPS. The 2002 results from the Iowa Test of Basic Skills show that 43.2 percent of elementary school students are reading at or above national norms, while 46.9 percent are performing at or above national norms in math. Overall, reading scores are up 16.7 percentage points and math 15.9 percentage points since 1996, the first full school year Mayor Daley assumed responsibility for the schools. Additionally, in high schools, the drop out rate declined, the graduation rate continued to grow, average ACT scores increased, and more students are taking advanced placement classes than ever before.

Chicago Teachers' Union and Other Employee Groups

For its 2002 fiscal year, the Board employed 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 January 1, 2001 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.

The Board's current four-year agreement with the CTU expires June 30, 2003. The contract provides for base salary increases for most teachers of 2% for fiscal year 2003. These amounts are subject to increase if the Board receives additional funding from certain sources. Teachers and educational support staff who are frozen at the top of the salary schedule are guaranteed a minimum 3% increase.

The remaining five labor unions also hold four-year contracts with the Board. All of these agreements expire on June 30, 2003 as well. Employees represented by these unions will experience a base salary increase of 3% each year for the remainder of the contracts.

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

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

Recent Financial Information Concerning the Board

For fiscal years 1996 through 2002, the Board adopted and achieved a balanced budget prepared in accordance with generally accepted accounting principles. On June 26, 2002, the Board adopted an operating budget for fiscal year 2003 totaling approximately $3.7 billion. This budget is also balanced and prepared in accordance with generally accepted accounting principles.

The most recent audited financial statements are for the fiscal year ended June 30, 2001 and are included as APPENDIX A, including the unqualified report of independent public accountants dated December 19, 2001.

GASB No. 33. In 1998, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* ("GASB No. 33"). GASB No. 33 established new accounting and financial reporting standards for nonexchange transactions, which as a general matter, encompass most taxes, grants and private donations. This standard is implemented for fiscal years beginning June 15, 2000 or thereafter. In a nonexchange transaction, a governmental entity receives (or gives) value without directly giving (or receiving) equal value in return. The issue addressed in GASB No. 33 is the timing of recognition of such nonexchange transactions. Implementation in fiscal year 2001 resulted in reducing the Board's beginning fund balance by $152,490,000 and deferral of revenue in the same amount.

GASB No. 34. In June of 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* ("GASB No. 34"). The GASB No. 34 financial reporting model is mandatory for all state and local governments and dramatically changes the presentation and content of governments' external financial statements. GASB No. 34 required that the CPS implement the new reporting model no later than fiscal year 2002. The CPS implemented GASB No. 34 earlier than required for fiscal year 2001 reporting purposes.

The traditional financial reporting model has a strong emphasis on legal compliance as a means to promote fiscal accountability with only minor attention to operational accountability. GASB No. 34 will improve operational accountability by highlighting the government-wide perspective that was frequently lost in the detail of fund accounting. Among the innovations of GASB No. 34, governments will be required to provide information about the cost of delivering services on a full accrual basis, including the cost of depreciating fixed assets. This will result in a demonstration of the extent to which the governmental unit has met and can continue to meet its operating objectives in an efficient and an effective manner into the future.

General Operating Fund Balances. As of June 30, 2001, the Board had a fund balance of $257.1 million available for re-appropriation. Of this total, $201.5 million was unreserved. The remaining $56.6 million was reserved for the following specific purposes: $30.2 million for the Supplemental General State Aid Fund; $13.4 million for the Public Building Commission Operation and Maintenance Fund; $11.6 million for the Worker's Compensation and Tort Immunity Fund, and $1.4 million for the Medicare Tax Fund.

As of June 30, 2002, the Board had an estimated fund balance of $244.2 million available for re-appropriation. Of this total, $201.5 million was unreserved. The remaining $43.7 million was reserved for specific purposes and re-appropriated in the fiscal year 2003 budget as follows: \$30 million for the Supplemental General State Aid Fund; \$3.9 million for the Public Building Commission Operation and Maintenance Fund; and \$1.8 million for the Medicare Tax Fund.

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

(Amounts in Thousands)

	1998	1999	2000	2001	FY 2002 Estimate (Unaudited)	FY 2003 Budget [6]
Revenues						
Property Taxes	$1,269,819	$1,314,362	$1,352,374	$1,379,010	$1,431,900	$1,488,500
Replacement Taxes	75,743[2]	84,513	89,142	71,230	62,900	69,892
State Aid	994,160	1,190,289	1,247,174	1,275,707	1,309,500	1,272,991
Federal Aid	415,081	460,343	497,673	552,311	570,400	691,021
Investment Income	31,326	28,006	36,347	42,501	22,000	27,014
Other	89,716[3]	71,113	65,515	78,107	77,800	73,700
Total Revenues	$2,875,845	$3,148,626	$3,288,225	$3,398,866	$3,473,500	$3,623,118
Expenditures						
Instruction	$1,727,782	$1,816,130	$1,888,879	$1,995,423	$2,076,307	$2,185,778
Pupil Services	263,347	271,876	301,714	303,071	315,356	331,983
Support Services	656,080	683,539	684,365	730,187	759,785	799,844
Food Services	129,843	154,581	161,614	166,365	173,109	182,236
Community Services	63,459	65,465	73,792	73,718	76,706	80,750
Capital Outlay	1,851	2,302	0	394	410	432
Teachers' Pensions	65,045	65,045	65,045	65,045	65,045	65,045
Other	7,260	1,790	9,093	18,916	19,683	20,721
Total Expenditures	$2,914,667	$3,060,728	$3,184,502	$3,353,119	$3,486,400	$3,666,788
Revenues in Excess of (Less than) Expenditures	$ (38,822)	$ 87,898	$ 103,723	$ 45,747	$ (12,900)	$ (43,670)
Other Financing Sources (Uses)	(12,015)	-	11,436	(46,767)[4]	-	-
Change in Fund Balance Revenues And Other Financing Sources In Excess of (Less than) Expenditures	(50,837)	87,898	115,159	$ (1,050)	$ (12,900)	$ (43,670)
Fund Balance, Beginning of Period	504,111	361,895	449,793	564,952	411,412	398,512
Residual Equity Transfer[2]	(91,379)	-	-	-	-	-
Impact of Adopting GASB No. 33[5]	-	-	-	(152,490)	-	-
Fund Balance, End of Period	$ 361,895	$ 449,793	$ 564,952	$ 411,412	$ 398,512	$ 354,842
Composition of Ending Fund Balance, End of Period						
Reserved for:						
Encumbrances	$ 80,130	$ 107,951	$ 102,623	$ 149,675	$ 153,322	$ 153,322
Specific Purposes	59,768	53,587	69,272	60,217	43,670	-
Total Reserved Fund Balance	$ 139,898	$ 161,538	$ 171,895	$ 209,892	$ 196,992	$ 153,322
Unreserved:						
Unreserved Fund Balance	$ 221,997	$ 288,255	$ 393,057	$ 201,520	$ 201,520	$ 201,520
Total Fund Balance	$ 361,895	$ 449,793	$ 564,952	$ 411,412	$ 398,512	$ 354,842

(1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See "APPENDIX A -- Audited Financial Statements For Fiscal Year 2001 – Note (1)."
(2) Beginning in Fiscal Year 1998, the Board began accounting in the Debt Service Fund for debt service expenditures and related funding sources (including personal property replacement tax revenues) relating to the Alternate Bonds. For Fiscal Year 1998, $54,212,000 of personal property replacement taxes have been recorded in the Debt Service Fund. Cash and investments in escrow of $91,379,000 for the Alternate Bonds were transferred from the General Operating Fund to the Debt Service Fund.
(3) Effective Fiscal Year 1998, revenues and expenditures reflect the adoption of GASB No. 24, which requires inclusion of the employer's pension contribution for non-teachers made by the City of Chicago as both revenues and expenditures.
(4) Net Operating Transfer in Fiscal Year 2001 included $48.8 million transferred to the Debt Service Funds to fund future debt service payments other than for the Bonds.
(5) See GASB No. 33 discussion in "--Recent Financial Information Concerning the Board."
(6) Revenues and expenditures are in accordance with the Fiscal Year 2003 Budget.

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 $534 million aggregate principal amount of leases with The Public Building Commission of Chicago (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS -- Other Public Bodies -- The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

Board's Debt Service Schedule

Calendar Year	Prior Alternate Debt: Prior Bonds[1][2][3]	Prior Alternate Debt: PBC Obligations[1]	PBC Leases[2]	The Bonds[1]	Total Annual Debt Service[1]
2002	$ 104,483,881	$ 62,047,950	$51,783,838	$ 0	$ 218,315,669
2003	124,469,315	81,777,388	51,834,588	0	258,081,290
2004	124,459,103	82,272,438	51,863,450	1,169,775	259,764,765
2005	124,483,928	116,578,250	51,572,450	2,919,550	295,554.178
2006	124,478,875		51,990,050	2,922,150	179,391,075
2007	126,252,105		52,037,000	2,919,150	181,208,255
2008	128,003,180		52,096,838	3,420,700	183,520,718
2009	202,567,643		52,103,825	3,923,813	258,595,280
2010	205,986,336		52,163,338	4,015,188	262,164,861
2011	218,639,096		52,232,025	4,419,250	275,290,371
2012	199,051,284		52,318,625	4,422,438	255,792,346
2013	220,376,846		52,359,513	4,921,238	277,657,596
2014	207,611,519		52,430,550	4,921,238	264,963,306
2015	217,204,924		52,467,613	4,923,738	274,596,274
2016	208,271,998		52,519,550	4,923,238	265,714,785
2017	208,718,940		52,600,125	4,919,488	266,238,553
2018	208,729,941		52,664,600	4,922,238	266,316,779
2019	232,499,594		30,635,500	4,916,163	268,051,256
2020	263,150,250			4,919,850	268,070,100
2021	263,249,725			4,917,250	268,166,975
2022	263,192,825			4,919,250	268,112,075
2023	263,189,838				263,189,838
2024	263,124,350				263,124,350
2025	263,105,575				263,105,575
2026	263,030,325				263,030,325
2027	262,992,150				262,992,150
2028	262,971,038				262,971,038
2029	262,876,413				262,876,413
2030	262,818,788				262,818,788
2031	262,771,575				262,771,575
2032	23,836,000				23,836,000
	$6,366,597,357	$342,676,025	$917,673,475	$79,335,700	$7,706,282,557

(1) Net of capitalized interest. At June 30, 2002, the Board held on deposit $319,378,543 for Prior Alternate Bond debt service, of which $194,045,451 is for the Public Building Commission ("PBC") Obligations for Calendar Years 2003-2005 The Board's Fiscal Year 2002 lease payment for the PBC Obligation was made on February 1, 2002.

(2) Debt service includes principal and interest due to and including the following January 1.

(3) Interest on $303,000,000 of outstanding variable rate debt is calculated at an assumed rate of 6% per annum.

Board's Overlapping Debt Schedule

As of September 1, 2002

(Dollars in Thousands)

Direct Debt

Amount	
The Bonds	$ 48,970
Total Prior Bonds	2,691,983
Commission Obligations (principal component)	251,660
PBC Leases (principal component)	534,184
Total Direct Debt	$3,526,797

Overlapping Debt[1]	Amount	Percent Amount	Amount Applicable
City	$4,311,818	100.00%	$ 4,311,818
School Finance Authority	458,180	100.00	458,180
Community College District	136,245	100.00	136,245
Chicago Park District[2]	832,906	100.00	832,906
Water Reclamation District	1,153,855	45.15	520,965
Cook County	2,675,950	44.19	1,182,502
Forest Preserve District	41,445	44.19	18,314
Total Overlapping Debt			$ 7,460,930
Total Direct and Overlapping Debt			$10,987,727

Selected Debt Statistics

Population (2000)	2,896,016[4]
Equalized Assessed Valuation (2000)[3]	$40,480,077[5]
Estimated Fair Market Value (2000)	$165,520,130[6]

	Per Capita[7]	EAV	FMV
Direct Debt	$1,217.81	8.71%	2.13%
Total Direct and Overlapping Debt	$3,794.08	27.14%	6.64%

(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 $152,615,000
Chicago Park District $30,205,000
(2) Includes $301,230,000 of outstanding general obligation bonds issued as "alternate bonds" under the Debt Reform Act for which the alternate revenue source is personal property replacement tax revenues.
(3) Cook County only.
(4) Source: United States Census Bureau.
(5) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
(6) Source: The Civic Federation.
(7) Per Capita amounts are not expressed as dollars in thousands.

Equalized Assessed Valuation and Statutory Debt Margin of the Board

(Dollars in Thousands)

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Equalized Assessed Valuation[1]	$30,773,302	$33,357,600	$33,947,364	$35,361,964	$40,487,129
Statutory Debt Limit, 13.8% of Equalized assessed valuation	$ 4,246,716	$ 4,603,349	$ 4,684,736	$ 4,879,951	$ 5,587,224
Principal amount of bonds outstanding[2]	-0-	-0-	-0-	-0-	-0-
Principal amount of certificates of Participation	34,500	23,500	12,000	-0-	-0-
Aggregate future rentals on leases with Public Building Commission	1,167,832	1,116,489	1,065,144	1,013,799	962,483
Less – Cash and investments on hand Applicable to reduction of above Debt	(55,241)	(50,347)	(49,942)	(37,921)	(38,379)
Net funded debt	$ 1,147,091	$ 1,089,642	$ 1,027,202	$ 975,878	$ 924,104
Unfunded Debt:					
Contracts, leases, purchase orders and Outstanding judgments	92,136	108,719	138,372	136,682	185,554
Asbestos abatement loans	20,437	18,399	16,919	15,438	13,253
State Technology Revolving Loan	-0-	-0-	-0-	6,000	4,067
Net Unfunded Debt	112,573	127,118	155,291	158,120	202,874
Total debt	$1,259,664	$1,216,760	$1,182,493	$1,133,998	$1,126,978
Statutory Debt Margin[2]	$2,987,052	$3,386,589	$3,502,243	$3,745,953	$4,460,246

(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 Prior Alternate Bonds, which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Employee Pension Obligations

Funding of Pension Obligations. Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "Pension Fund"). See "APPENDIX A -- Fiscal Year 2001 Audited Financial Statements – Note (11)." The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers' Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (or "Funded Ratio") to equal 90% by fiscal year 2045. As of June 30, 2001, 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 99.95% and based on current market value was 105.3%. Since June 30, 2001, the value of assets of the Pension Fund has decreased due to general market conditions.

The 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998: (i) eliminated the Board's obligation to make any local employer pension contribution unless the Funded Ratio of the Pension Fund would otherwise fall below 90%; and (ii) made additional changes to the Board's obligation to fund pension benefits. Based on the current Funded Ratio for the Pension Fund, the Board has not provided for any contributions to the Pension Fund from local resources in its fiscal year 2001 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 AND ADMINISTRATIVE MATTERS -- Pension Funding Litigation."

Debt Management Policy

To help ensure the Board's creditworthiness, the Board adopted a Debt Management Policy (the "Debt Policy") on October 23, 1996. The purpose of the Debt Policy is to provide a functional tool for debt management and capital planning and to enhance the Board's ability to manage its debt in a conservative and prudent manner. In issuing the Bonds and any future debt, the Board will consider a number of factors, including the duration of the debt in relation to the economic life of the improvement or asset that the issue is financing, negotiated and competitive methods of sale, conditions in both domestic and international markets, credit enhancement agreements, the potential impact of debt service on the operating budget, statutory debt limitations, and credit implications. The Board also believes it should avoid financing general operating costs from debt having maturities greater than one year. A copy of the Debt Policy is available from the Board upon request to the Treasurer of the Board at (773) 553-2790. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds.

Investment Policy

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

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

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

Major Units of Government

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

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

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

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

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

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

Interrelationships of These Bodies

The overlapping governmental taxing bodies described above and the Chicago School Finance Authority, described below, share in varying degrees a common property tax base with the Board. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO -- 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.

Other Public Bodies

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

The Public Building Commission of Chicago (the "PBC") is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental units. The PBC issues bonds to finance its various projects and then leases its facilities to certain governmental units. At present, the Board leases substantially all school buildings and facilities from the PBC. Several other of the major governmental units described above also lease facilities from the PBC. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO -- 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, a member of the School Board is one of these members. The presiding officers of the Park District and the Water Reclamation District each appoint one member while the County appoints two members. The PBC is not authorized to levy real property or other taxes, but the public bodies which lease facilities from the PBC, including the Board, levy real property taxes to make the required lease rental payments.

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

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

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

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

Chicago School Finance Authority

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

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

Financial Oversight and Control Powers. Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise certain financial oversight and control powers with respect to the Board. Effective with the passage of the 1995 Amendatory Act, the Authority's financial oversight and control powers were suspended until July 1, 1999. 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 $1,236,450,000 of its general obligation bonds to provide the Board with moneys for operating purposes, school rehabilitation and school construction purposes, working cash purposes and to refinance short-term debt obligations and to refund outstanding bonds of the Authority. See "APPENDIX A -- Fiscal Year 2001 Audited Financial Statements - Note (12)", 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, $458,180,000 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 "BOARD OF EDUCATION OF THE CITY OF CHICAGO -- Direct and Overlapping Debt."

THE REAL PROPERTY TAX SYSTEM

Real Property Assessment, Tax Levy and Collection Procedures

General. As described under "SECURITY FOR THE BONDS -- Pledged Taxes," the Pledged Taxes, to the extent they are levied and collected, will be derived from the proceeds of ad valorem taxes levied by the Board on all taxable property within the School District.

Substantially all (approximately 99.98%) of the "Equalized Assessed Valuation" (described below) of taxable real property in the School District is located in Cook County (the "County"). The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption, and elsewhere in this Official Statement with respect to taxable property of the School District, does not reflect the portion situated in DuPage County. The Illinois laws relating to real property are contained in the Illinois Property Tax Code (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 suburbs in the northern and northwestern portions of the County were reassessed in 2001; suburbs in the western and southern portions of the County were reassessed in 2002; and the City was reassessed in 2000.

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

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by filing a complaint with the Cook County Board of Review (the "Board of Review"), composed of three members elected at large by the voters of the County, which is empowered to review and adjust Assessed Valuations set by the Assessor.

Beginning with assessments for the year 1996, owners of residential property having six or fewer units have been able to appeal decisions of 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 have been able to appeal Assessed Valuations to the PTAB since 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.

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

The Board of Review, through the Cook County State's Attorney, appealed the March 2000 decisions to the Illinois Appellate Court First District (the "Appellate Court"). The Board filed an amicus brief in these cases. Oral arguments were heard in March 2002. On August 20, 2002, the Appellate Court released its ruling reversing eight PTAB assessment findings that applied a median level of assessment lower than that set out in the Classification Ordinance. The Appellate Court remanded those cases to PTAB with directions to apply the level of assessment mandated by the Classification Ordinance. PTAB can petition for leave to appeal to the Illinois Supreme Court by filing an affidavit within 21 days and a petition within 35 days of the decision. The Board cannot predict whether PTAB will appeal to the Illinois Supreme Court or the outcome of such an appeal.

In September 2001, the Board of Review petitioned the Appellate Court to review the August 2001 decisions of the PTAB. The Board and other taxing jurisdictions filed amicus briefs in these cases.

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

Various bills have been introduced in the Illinois General Assembly that aim to offset any material adverse effects to the Board and all other taxing units in Cook County, resulting from the above-described PTAB decisions. The Board, however, cannot predict whether any such proposed legislation will or will not become law.

Despite any potential short-term impact on the Board's general revenues, the long-term impact to the Board of the PTAB decisions is anticipated to be negligible as none of these decisions question the Board's ability to levy or collect real property taxes or the amount of the Board's real property tax levy.

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

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

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

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See "Property Tax Extension Limitation Law; Issuance of Alternate Bonds" below. For a listing of the Equalization Factors for the ten years ended December 31, 2000, see "Property Tax Information -- ASSESSED, EQUALIZED ASSESSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY 1991-2000".

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 $58,000 of the Assessed Valuation of certain property owned and used exclusively by such veterans or their spouses for residential purposes. A homestead improvement exemption allows 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 was 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 $40,000 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 Park District, the Authority, the Community College District, the Water Reclamation District, the County and the Forest Preserve District.

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

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

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

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

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

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

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited 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 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 as were the Prior Alternate Bonds. For additional information, see "INTRODUCTION -- Prior Alternate Bonds." The extension and collection of the Pledged Taxes, to the extent received, for the payment of debt service on the Bonds are not limited or restricted in any way by the provisions of the Limitation Law, as amended.

Cook County Truth in Taxation Law. The Cook County Truth in Taxation Law, contained within the Property Tax Code, imposes procedural limitations on the taxing powers of a Unit located within the County and requires that notice, in prescribed form, be published of the Unit's annual levy, exclusive of levies for debt service, levies made for the purpose of paying amounts due under public building commission leases and election costs. (This means that 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 Cook County Truth in Taxation Law.) A public hearing must also be held on the adoption of the Unit's annual levy. By law, the Board conducts its public hearing on the first Tuesday in December of every year. No amount in excess of the preceding year's aggregate 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 of the Cook County Truth in Taxation Law.

Bond Issue Notification Act

The Bond Issue Notification Act of the State of Illinois (the "Bond Issue Notification Act") requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony. On July 24, 2002, pursuant to properly published notice, the Board held the hearing required by the Bond Issue Notification Act with respect to all bonds issued under the 2002 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 1991-2000

(Dollars in Thousands)

Tax Year Levy	Assessed Values[1] Class 2[5]	Assessed Values[1] Class 3[6]	Assessed Values[1] Class 5[7]	Assessed Values[1] Other[8]	Assessed Values[1] Total	State Equalization Factor[2]	Total Equalized Assessed Value[3]	Total Estimated Fair Cash Value[4]	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
2000	$8,758,682	$1,966,921	$8,807,444	$342,942	$19,875,989	2.2235	$40,480,077	$165,520,130	24.46%
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
1998	6,646,198	2,047,577	7,848,335	267,006	16,809,116	2.1799	33,940,146	112,606,894	30.14
1997	6,554,717	2,077,044	7,809,486	262,032	16,703,279	2.1489	33,349,557	106,282,207	31.38
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.62
1995	5,769,559	1,979,007	7,374,840	241,356	15,364,762	2.1243	30,381,480	97,291,356	31.23
1994	5,701,638	2,016,367	7,357,659	244,451	15,320,115	2.1135	30,090,355	94,181,797	31.95
1993	5,095,776	1,878,201	7,135,798	250,349	14,360,124	2.1407	26,661,954	94,219,759	28.30
1992	5,073,399	1,896,807	7,121,862	355,820	14,447,888	2.0897	27,964,128	94,361,550	29.64
1991	5,050,863	1,903,917	7,048,501	392,113	14,395,394	2.0523	27,397,830	91,031,582	30.10

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

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

		First Year Collections		Cumulative Collections[1]	
Levy Year[2]	Extension	Amount	Percent	Amount	Percent
2000	$1,503,488	$1,446,847	96.2%	$1,497,167	99.6%
1999	1,451,206	1,408,124	97.0	1,436,806	99.0
1998	1,416,346	1,317,872	93.0	1,397,660	98.7
1997	1,362,211	1,304,701	95.8	1,344,182	98.7
1996	1,331,437	1,293,278	97.1	1,300,005	97.6
1995	1,291,784	1,240,528	96.0	1,256,304	97.3
1994	1,253,800	1,189,147	94.8	1,214,292	96.8
1993	1,239,344	1,193,613	96.3	1,205,760	97.3
1992	1,193,352	1,145,125	96.0	1,161,826	97.4

(1) Reflects collections through June 30, 2002.
(2) Year of extension is the year after the year of levy.

Source: Board of Education of the City of Chicago

Real Property Tax Rates[1]

(per $100 equalized assessed valuation)

Tax Rates by Board Fund:[2]	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Educational	$2.427	$2.405	$2.444	$2.262	$3.196	$3.202	$2.998	$3.059	$3.000	$2.756
Special Education	0.040	0.039	0.039	0.038	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare	0.024	0.027	0.028	0.030	0.034	0.023	0.022	0.044	0.048	0.047
Agricultural Science	0.011	0.011	0.003	0.008	0.000	0.000	0.000	0.000	0.000	0.000
Building	0.450	0.441	0.439	0.429	0.000	0.000	0.000	0.000	0.000	0.000
Playground and Recreational	0.080	0.078	0.078	0.076	0.000	0.000	0.000	0.000	0.000	0.000
Textbook	0.110	0.108	0.107	0.105	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.201	0.197	0.207	0.229	0.254	0.222	0.246	0.192	0.206	0.141
Teachers' Pension	0.260	0.255	0.254	0.248	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance	0.425	0.516	0.538	0.565	0.594	0.709	0.719	0.722	0.701	0.640
Bond Redemption & Interest	0.042	0.039	0.013	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.152	0.151	0.173	0.177	0.173	0.171	0.099	0.155	0.149	0.130
Board Subtotal	$4.222	$4.267	$4.323	$4.167	$4.251	$4.327	$4.084	$4.172	$4.104	$3.714
Other Major Government Units:										
City of Chicago	2.183	2.210	2.228	2.158	2.131	2.182	2.024	1.998	1.860	1.660
Community College District	0.398	0.390	0.381	0.372	0.376	0.377	0.356	0.354	0.347	0.311
School Finance Authority	0.204	0.190	0.150	0.265	0.296	0.291	0.270	0.268	0.255	0.223
Chicago Park District	0.718	0.735	0.778	0.741	0.730	0.721	0.665	0.653	0.627	0.572
Water Reclamation District	0.482	0.470	0.471	0.495	0.495	0.492	0.451	0.444	0.419	0.415
Cook County	1.040	1.176	0.971	0.993	0.994	0.989	0.919	0.911	0.854	0.824
Cook County Forest Preserve	0.064	0.063	0.072	0.073	0.072	0.074	0.074	0.072	0.070	0.069
Other Unit Subtotal	$5.089	$5.234	$5.051	$5.097	$5.094	$5.126	$4.759	$4.700	$4.432	$4.074
TOTAL	$9.311	$9.501	$9.374	$9.264	$9.345	$9.453	$8.843	$8.872	$8.536	$7.788

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

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

TAX MATTERS

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

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

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

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

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

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

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

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

RATINGS

Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned ratings of "A+" and "AAA" to the Bonds. Fitch Ratings ("Fitch") has assigned ratings of "A+" and "AAA" to the Bonds. Moody's Investors Service ("Moody's") has assigned ratings of "A2" 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 of municipal bond insurance to be issued by MBIA Insurance Corporation.

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, 2001, included in APPENDIX A to this Official Statement, have been audited by Arthur Andersen LLP, independent public accountants as indicated in their report included in APPENDIX A (the "Audit Report"). Although the Audit Report has been included in previous Official Statements of the Board with Arthur Andersen's consent, inclusion of the Audit Report in this Official Statement has not been consented to nor has the Audit Report been reissued by Arthur Andersen because the firm is unable to meet certain Securities and Exchange Commission requirements pertaining to auditor's consent. Those requirements are promulgated pursuant to SEC Release No. 33-8070, which was issued on March 18, 2002. Beginning with the fiscal year ended June 30, 2002, the Board's financial statements will be audited by another nationally recognized independent public accounting firm.

FINANCIAL ADVISOR

The Board has engaged Austin Meade Financial, Ltd. as Financial Advisor in connection with the authorization, issuance and sale of the Bonds. The Financial Advisor has provided advice on the plan of financing and structure of the Bonds and has reviewed certain legal documents, including this Official Statement, with respect to financial matters. Unless indicated to the contrary, the Financial Advisor has not independently verified the factual information contained in this Official Statement, but has relied on the information supplied by the Board and other sources.

UNDERWRITING

The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of $51,336,862.80 (which represents par, less an Underwriters' discount of $381,912.50 plus a net original issue premium of $2,748,775.30). The Bonds will be offered to the public initially at the offering price or yields set forth on the 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 Pugh, Jones & Johnson, P.C. and Burke Burns & Pinelli, Ltd., both of Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinion is included herein as APPENDIX C. Certain legal matters will be passed upon for the Board by Marilyn F. Johnson, General Counsel, and by Katten Muchin Zavis Rosenman, Chicago, Illinois; and for the Underwriters by their Co-Counsel, Kutak Rock Illinois LLC and Greene and Letts, both of Chicago, Illinois.

LITIGATION AND ADMINISTRATIVE MATTERS

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 "THE REAL PROPERTY TAX SYSTEM -- Property Tax Extension Limitation Law; Issuance of Alternate Bonds."

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

Pension Funding Litigation

In 1993, the Public School Teachers' Pension and Retirement Fund ("Fund") filed a lawsuit claiming that the Board failed to make certain statutorily required contributions to the Fund in the fiscal years ending August 31 of 1992, 1993 and 1994. The Fund's complaint alleges three basic claims: First, that the amounts paid to the Fund by the Board with respect to teachers working in Federal programs for which it receives Federal funds, do not count as employer contributions under the Pension Code, notwithstanding that employee contributions for such teachers do count. The amounts of money implicated in the fiscal years 1991, 1992, and 1993 were $7,972,439, $8,473,930 and $10,158,343 respectively. The Fund's second claim involves employer contributions made by the Board for teachers electing early retirement. The Board contributed $22,208,683.59 in August 1993 on behalf of those employees who elected early retirement that month. This contribution was paid under the lump sum plan for a number of retirees and under the installment plan (i.e., quarterly payments over a five-year period) for the remaining retirees. The Fund claims that this payment did not count as an employer contribution for purposes of the Pension Code even though the teacher contributions are deemed employee contributions. Based on this assertion, the Fund would have the Board make a "double" payment of the employer contribution. The Fund's third claim concerns the Pension Code provision which allows retired teachers to purchase constructive service credit for time spent in military service (either before becoming a teacher or after leaving the Board). The Pension Code requires retired teachers to pay all costs to the Fund for such added credit that is "an amount equal to the employer's normal cost of benefits accrued from such service plus interest." The Fund, however, contends that the payments for military service credits including the employer's normal cost of benefits are employee contributions, totaling $1,633,476 and $17,122 in fiscal years 1992 and 1993.

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

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

Teacher Tenure Litigation

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

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

On September 17, 2001, the Board filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on October 20, 2001. Thereafter, on February 6, 2002, the Illinois Supreme Court granted the Board's petition seeking appeal of the Appellate Court's decision, and the parties have submitted briefs supporting their respective positions.

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

Principal Tenure Litigation

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

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

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

The plaintiffs appealed, and the appellate court found that plaintiffs had pled "an employment relationship" that was "inherently" contractual. Based upon this conclusion, the appellate court entered judgment as to liability in favor of the plaintiffs.

The Board then petitioned for review in the Illinois Supreme Court, but the Court denied the petition. The case has been remanded to the trial court for a determination of the amount of damages owed to the plaintiffs. The Board is finalizing its analysis of the number of plaintiffs who legitimately are entitled to compensation pursuant to the appellate court's decision. The Board's preliminary examination indicates that approximately fifty former principals may be entitled to damages for up to six months of salary and related pension contributions.

Potential Liability Relating to Loans Received for Asbestos Abatement

In April, 1993, the United States Environmental Protection Agency ("EPA") approved a $16,242,562 zero-interest, 18-year loan to the Board under the Federal Asbestos School Hazard Abatement Act. The Board drew down approximately $14 million of the proceeds and used them to perform asbestos abatement work in twenty Chicago Public Schools between mid-1993 and mid-1995. Less than $9 million remains outstanding on the loan at this time.

In March of 2000, the Office of the Inspector General of the EPA initiated an audit of the costs claimed under the loan agreement. In March of 2001, the Inspector General's office issued a report that questioned a substantial amount of the abatement expenditures due to a lack of documentation indicating whether the expenditure was for an eligible cost. Shortly after the report was issued, the Inspector General's auditors met with Board attorneys to discuss the findings of the report. Thus far, the Board has not heard whether the Inspector General will elect to take any action in light of the report's findings.

The EPA Inspector General could decide to take no action against the Board in connection with this matter, or the EPA Inspector General would elect to impose a fine, demand immediate repayment of the entire outstanding loan balance or a portion thereof, impose an accelerated repayment schedule and/or require the Board to pay interest on the loan.

Sarkissian v. Board of Education

On July 3, 2002, the Illinois Supreme Court issued a decision in <u>Sarkissian v. Chicago Board of Education</u>, holding that a 1988 law suit was properly served on the Board of Education when a deputy sheriff delivered the summons and complaint to a receptionist in the Board's law department in February 1988. As a result, the Court ruled that a $10 million default judgment, entered against the Board in April 1990 and kept secret by the plaintiff until August 1997, was not void for lack of jurisdiction. With interest accruing at the rate of 6% per year since the judgment was entered in 1990, the judgment's value now slightly exceeds $17 million.

In its original decision, issued January 29, 2001, the Illinois Supreme Court had held that the plaintiff had not properly served the Board, relying on longstanding Illinois case law requiring strict compliance with the statute governing the service of process. The applicable Illinois statute requires a plaintiff to serve "the president or clerk or other officer corresponding thereto . . ." and the Court initially found that service on a law department receptionist did not satisfy the statute's requirements. The Court held that a plaintiff must either serve the Board's president, or its secretary — an officer whose position corresponds to a clerk.

On rehearing, the Court approached the case differently. First, the Court examined whether the statutorily-designated officer — *i.e.*, the president — had the authority to delegate the responsibility of accepting service of process to another person. The Court concluded the president had that authority. Next, the Court examined whether the president exercised that authority. Citing evidence that outside counsel retained by the Board in 1988 routinely filed appearances on behalf of the Board in cases where service was effected by delivering process to the law department's receptionist, the Court ruled that the president had, in fact, delegated the authority of accepting service to that receptionist.

On July 24, 2002, the Board filed a petition for rehearing, requesting that the Court again reconsider its decision in this case. The Board is awaiting a ruling on this petition.

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

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

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System

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

Board's Debt Service Schedule

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

"Audited Financial Statements" means the general purpose financial statements of the Board which are in conformity with generally accepted accounting principles and audited by independent 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) debt service payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Bonds; and (xi) rating changes.

Consequences of Failure to Provide Information

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

A default under the Undertaking shall not be deemed an event of default under the Resolutions 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 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 Undertaking

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

Dissemination Agent

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

AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

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

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APPENDIX A

Audited Financial Statements For Fiscal Year 2001

The attached Report of Independent Public Accountants (the "Auditor's Report") has been excerpted from the Board's Comprehensive Annual Financial Report for the year ended June 30, 2001 (the "CAFR"). The Management's Discussion and Analysis referred to in the second to last paragraph of the Auditor's Report can be found on the pages immediately succeeding the Auditor's Report. The Supplementary Individual Schedules referred to in the last paragraph of the Auditor's Report can be found in the Board's CAFR. A copy of the CAFR is available from the Board upon request to the Treasurer of the Board at (773) 553-2790.

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ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Chicago Board of Education:

We have audited the accompanying basic financial statements of the Chicago Public Schools (the Chicago Board of Education, the ''Board'', a body politic and corporate of the State of Illinois) as of and for the year ended June 30, 2001, as listed in the foregoing table of contents. These basic financial statements and the supplementary information referred to below are the responsibility of the Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* (1994 Revision, as amended), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above fairly present, in all material respects, the financial position of the Chicago Public Schools, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 1 to the basic financial statements, the Chicago Public Schools adopted the provisions of Governmental Accounting Standards Board Statement No. 33, ''Accounting and Financial Reporting for Nonexchange Transactions,'' Statement No. 34, ''Basic Financial Statements — and Management's Discussion and Analysis — For State and Local Governments,'' Statement No. 36, ''Recipient Reporting for Certain Shared Nonexchange Revenues,'' Statement No. 37, ''Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,'' and Statement No. 38, ''Certain Financial Statement Note Disclosures'' as of and for the year ended June 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2001, on our consideration of the Chicago Public Schools' internal control over financial reporting and our testing of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 19 to 25 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Chicago Public Schools taken as a whole. The accompanying *Supplementary Individual Schedules*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Chicago, Illinois,
December 19, 2001

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CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis (MD&A)
June 30, 2001

INTRODUCTION

Our discussion and analysis of Chicago Public School's financial performance provides an overview of the School Board's financial activities for the fiscal year ended June 30, 2001. It should be read in conjunction with the CPS' financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statement — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001, and; in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

On the government-wide financial statements, the assets of the CPS exceeded liabilities by $1.356 billion. Of this amount, $245 million is unrestricted. The CPS' total net assets increased by $8 million for the fiscal year ended June 30, 2001.

The CPS' governmental funds financial statements reported combined ending fund balance of $1.345 billion, an increase of $216.7 million over the prior year. Of this amount, $60.2 million is reserved in the general operating fund for restricted donations and other specific purposes, $261 million is available for the capital program and $201.5 million (a decrease of $39.0 million compared to the prior year) is unreserved in the General Operating Fund and is available for spending at the CPS' discretion.

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions (GASB No. 33)* was issued in 1998 and established new accounting and financial reporting standards for nonexchange transactions, which as a general matter, encompass most taxes, grants and private donations. In a nonexchange transaction, a governmental entity receives (or gives) value without giving (or receiving) equal value in return. The issue addressed in GASB No. 33 is the timing of recognition of such nonexchange transactions the result of which was a restatement to opening fund balance and a deferral of revenue of $152.5 million. The CPS also adopted GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*, an amendment to GASB No. 33.

CPS' total debt increased from $2.967 billion to $3.441 billion. The key factor in this increase was the issuance of Unlimited Tax General Obligation Bonds totaling $455 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

Net Assets at June 30, 2001:
(in millions)

	Governmental Activities
Current Assets	$ 2,879
Capital Assets, net	3,367
Total Assets	$ 6,246
Current Liabilities	$ 701
Long-term Liabilities	4,189
Total Liabilities	$ 4,890
Net Assets:	
Invested in Capital Assets Net of Related Debt	$ 574
Restricted for Debt Service	410
Restricted for Specific Purposes	127
Unrestricted	245
Total Net Assets	$ 1,356
Revenues:	
Program Revenues:	
Charges for Services	$ 11
Operating Grants and Contributions	702
Capital Grants and Contributions	251
Total Program Revenues	$ 964
General Revenues:	
Property Taxes	$ 1,460
Replacement Taxes	138
State Aid	1,160
Interest and Investment Earnings	104
Miscellaneous	29
Total General Revenues	$ 2,891
Total Revenues	$ 3,855

Net Assets (continued)
(in millions)

	Governmental Activities
Expenses:	
Instruction	$ 2,244
Support Services:	
Pupil Support	316
Administrative Support	131
Facility Support	396
Instructional Support	324
Food Services	173
Community Services	74
Interest Expense	172
Other	17
Total Expenses	$ 3,847
Change in Net Assets	$ 8

Capital Assets

At June 30, 2001, the CPS had $3.37 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase (including additions, deductions and depreciation) of $340 million, or 11%, from last year ($000's).

	Governmental Activities			
	June 30, 2000	Additions	Retirements and Transfers to In-Service	June 30, 2001
Land	$ 140,930	$ 14,695	$ (145)	$ 155,480
Buildings and improvements	4,240,010	512,276	—	4,752,286
Work in Process	106,900	42,000	(106,900)	42,000
Equipment and administrative software	47,664	3,087	—	50,751
Total Capital Assets	$ 4,535,504	$ 572,058	$ (107,045)	$ 5,000,517
Less: Accumulated Depreciation	(1,507,908)	(125,172)	—	(1,633,080)
Totals	$ 3,027,596	$ 446,886	$ (107,045)	$ 3,367,437

Long-term Debt and Capitalized Lease Obligations

As of June 30, 2001, the CPS had $3.441 billion in debt, including accreted interest, and capitalized lease obligations outstanding versus $2.967 billion last year, an increase of 16%. The long-term and capitalized lease obligations consisted of (millions of dollars):

	Governmental Activities				
	June 30, 2000	Issuances	Retirements	Accreted Interest	June 30, 2001
Unlimited Tax General Obligation Bonds	$ 2,037	$ 455	$ (4)	$ 41	$ 2,529
Qualified Zone Academy Bonds	26	13	—	—	39
State Technology Revolving Loan	—	6	—	—	6
Asbestos Abatement Loans	15	—	(2)	—	13
Total	$ 2,078	$ 474	$ (6)	$ 41	$ 2,587
Capitalized Lease Obligations	889	—	(35)	—	854
Total Debt	$ 2,967	$ 474	$ (41)	$ 41	$ 3,441
Less: Current Year Portion and Premiums and Discounts:					(77)
Total Long-term Debt, net					$ 3,364

In March 2001, CPS issued $45,110,000 in Unlimited Tax General Obligation Bonds Series 2001A. The proceeds from these bonds are being used as part of the CPS' Capital Improvement Program. As a result of the issuance, CPS recorded net proceeds of $44,967,741 in the Capital Improvement Fund.

In December 2000, the Board issued $13,390,000 in Qualified Zone Academy Bonds (Series 2000E). The bonds were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own the Series 2000E bonds will be entitled to a credit against taxable income. Net proceeds of $13,224,398 from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies known as Crane Technical Preparatory Common School, Farragut Career Academy, Kenwood Academy High School, Lindblom Technical High School and Sullivan High School.

In September 2000, CPS issued $303,000,000 in Unlimited Tax General Obligation Bonds (Series 2000B, C and D) (each Series is equal to $101,000,000 principal outstanding). These bonds are the first variable rate bonds issued by CPS with the initial interest rate resetting weekly. As a result of the issuance, CPS recorded net proceeds of $300,504,586 in the Capital Improvement Fund.

In July 2000, CPS issued $106,960,000 in Unlimited Tax General Obligation Bonds Series 2000A. The proceeds from these bonds are being used as part of the CPS' Capital Improvement Program. As a result of the issuance, CPS recorded net proceeds of $100,023,000 in the Capital Improvement Fund. The remaining proceeds of $2,133,000 were used to fund future interest payments.

Debt issuances in fiscal year 2001 bring the total debt issued by CPS in connection with the Capital Improvement Program to $2.8 billion.

In fiscal year 2001, the CPS entered into a promissory note for $6,000,000 with the Illinois State Board of Education, the proceeds of which are to go toward the purchase of computers for schools. The term of the note is for three years at an interest rate of 2.5%.

The Chicago School Finance Authority (SFA) was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. The SFA issued debt to fund construction and provide working capital. The principal amount of the SFA bonds outstanding as of June 30, 2000, net of bonds advance refunded or defeased, is $522 million. The SFA bonds are not a direct or contingent obligation of the CPS and the 1995 Amendatory Act suspended the oversight powers of the SFA through fiscal year 2004.

Pension Funding

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

The CPS' employer-required contribution to the Pension Fund, with the exception of federal funds, is determined by State statutes *(see Note 11 of the Notes to Financial Statements)*. As of June 30, 2000, the funded ratio of the Pension Fund is approximately 96.7% and the CPS has recorded a pension liability of $626.8 million in the accompanying financial statements. The CPS, however, has no employer-required contributions to the Annuity Fund.

Fund Financial Statements

The CPS' fund financial statements provide detailed information about the most significant funds — not the CPS as a whole. The CPS' governmental funds use the following accounting approach:

Governmental Funds — All of the CPS' services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the CPS' operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the CPS's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on the Reconciliation of the Governmental Funds.

General Government Functions: The following schedule presents a summary of the general operating fund, capital projects fund and debt service fund revenues, and other financing sources by type for the period ended June 30, 2001. It also depicts the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

Revenues and Other Financing Sources

(Millions of dollars)	Amount	Percent of Total	Increase (Decrease) from 2000	Percent Increase (Decrease) from 2000
Property Taxes	$ 1,430	33.3%	$ 26	1.9%
Replacement Taxes	138	3.2	(10)	(6.8)
State Aid	1,432	33.4	57	4.1
Federal Aid	634	14.8	95	17.6
Investment Income	104	2.4	19	22.4
Other	82	1.9	(4)	(4.7)
Subtotal	$ 3,820	89.0%	$ 183	5.0
Other Financing Sources, net	472	11.0	141	42.6
Total	$ 4,292	100.0%	$ 324	8.2

State aid increased due to increased General State Aid and increased Capital Development Board grants. Replacement taxes decreased due to the weakening economy. The increase in Federal aid is primarily due to CPS' expanded E-rate program to provide internet access to all schools. Favorable interest rates earned CPS additional investment income. Other financing sources increased due to more debt being issued than in previous year.

The following schedule represents a summary of the general operating fund, capital projects fund, and debt service fund expenditures for the fiscal year ended June 30, 2001, and the percentage increase and decrease in relation to prior year amounts.

Expenditures

(Millions of dollars)	Amount	Percent of Total	Increase (Decrease) from 2000	Percent Increase (Decrease) from 2000
Instruction	$ 1,995	49.1%	$ 106	5.6%
Pupil Support Services	303	7.4	1	—
General Support Services	732	18.0	48	7.0
Food Services	166	4.1	4	2.5
Community Services	74	1.8	—	—
Capital Outlay	528	13.1	(19)	(3.8)
Teachers' Pension	65	1.6	—	—
Debt Service	195	4.8	46	30.1
Other	17	.1	12	142.9
Total	$ 4,075	100.0%	$ 198	5.1

Salaries and related costs are the largest source of expenditures for CPS (approximately 75% of the operating budget). Last year all employees received a salary increase of at least three percent, affecting instruction, pupil support, and most other expenditures. General support services increased primarily due to higher salary costs and significantly higher natural gas costs. Debt service expenditures have increased in response to the higher level of debt that the CPS has incurred to fund capital improvements.

Notes to Financial Statements

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

BUDGETARY HIGHLIGHTS

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

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

In June 2000, the Board adopted a balanced budget for the general operating fund for fiscal year 2001 that reflected total revenues of $3.42 billion and total appropriations of $3.48 billion. No changes were made by the Board during the year to either total budgeted revenues or total budgeted appropriations.

Actual general operating fund revenues for fiscal year 2001 were $3.40 billion and actual general operating fund expenditures were $3.35 billion. Actual revenues were less than budgeted revenues primarily due to under-spending on certain federal grants (these unspent grant amounts typically rollover to the next grant year). In June 2001, the Board approved an operating transfer of $48.8 million from the General Operating Fund to the Debt Service Fund.

In June 2001, the Board adopted a balanced budget for the fiscal year 2002 general operating fund that reflected total revenues of $3.54 billion and total appropriations of $3.58 billion.

REQUESTS FOR INFORMATION

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

The Chicago Public Schools
Office of the Controller
125 South Clark Street
14th Floor
Chicago, Illinois, 60603
Or visit our website at: **http://www.cps.k12.il.us**

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2001

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Cash and investments	$ 634,069
Cash and investments in escrow	1,002,054
Cash and investments held in school internal accounts	26,094
Property taxes receivable, net of allowance for loss	783,078
Other receivables:	
Replacement taxes	25,636
State aid	275,060
Federal aid	89,472
Other	21,428
Other assets	21,786
Capital assets, net of accumulated depreciation	3,367,437
Total Assets	$ 6,246,114
LIABILITIES:	
Accounts payable	$ 341,330
Accrued payroll	221,763
Other accrued liabilities	26,609
Interest payable	19,266
Long-term liabilities:	
Due within one year	92,585
Due in more than one year:	
Debt, net of premiums and discounts	2,572,913
Capitalized Lease Obligations	790,776
Pension	626,865
Other	198,020
Total Liabilities	$ 4,890,127
NET ASSETS:	
Invested in capital assets, net of related debt	$ 574,361
Restricted for:	
Debt service	409,896
Specific purposes	126,527
Unrestricted	245,203
Total Net Assets	$ 1,355,987

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2001

(Thousands of Dollars)

		Program Revenues			
	Expenses	**Charges For Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Assets**
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$ 2,243,742	$ —	$ 359,662	$ 157,961	$ (1,726,119)
Support services:					
Pupil support services	315,700	—	16,906	23,992	(274,802)
Administrative support services	131,178	—	34,220	9,969	(86,989)
Facility support services	396,469	—	12,124	25,127	(359,218)
Instructional support services	323,685	—	97,199	22,707	(203,779)
Food services	173,297	11,698	143,416	7,483	(10,700)
Community services	73,902	—	38,982	3,316	(31,604)
Interest Expense	172,436	—	—	—	(172,436)
Other	17,495	—	—	—	(17,495)
Total Governmental Activities	$ 3,847,904	$ 11,698	$ 702,509	$ 250,555	$ (2,883,142)

General Revenues:	
Taxes:	
Property taxes	$ 1,459,942
Replacement taxes	137,744
State aid	1,160,386
Interest and investment earnings	103,520
Miscellaneous	29,102
Total General Revenues	$ 2,890,694
Change in net assets	$ 7,552
Net assets — beginning (as restated)	1,348,435
Net assets — ending	$ 1,355,987

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS

June 30, 2001

(Thousand of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
ASSETS:				
Cash and investments	$ 615,788	$ 17,324	$ 957	$ 634,069
Cash and investments in escrow	1,252	689,435	311,367	1,002,054
Cash and investments held in school internal accounts	26,094	—	—	26,094
Receivables —				
Property taxes, net of allowance for loss	752,702	—	30,376	783,078
Replacement taxes	25,636	—	—	25,636
State aid	236,541	—	38,519	275,060
Federal aid	88,119	1,353	—	89,472
Other	7,422	9,543	4,463	21,428
Due from other funds	18,577	12,384	51,797	82,758
Inventories	1,962	—	—	1,962
Other assets	5,861	—	—	5,861
Total Assets	$ 1,779,954	$ 730,039	$ 437,479	$ 2,947,472
LIABILITIES AND EQUITY:				
LIABILITIES:				
Accounts payable	$ 203,462	$ 111,774	$ —	$ 315,236
Accrued payroll	221,763	—	—	221,763
Amount held for student activities	26,094	—	—	26,094
Due to other funds	—	82,758	—	82,758
Other accrued liabilities	10,932	9,105	—	20,037
Due Public School Teachers' Pension and Retirement Fund of Chicago	3,539	—	—	3,539
Due Municipal Employees' Annuity and Benefit Fund of Chicago	3,033	—	—	3,033
Deferred property tax revenue	741,118	—	30,021	771,139
Other deferred revenue	158,601	—	—	158,601
Total Liabilities	$ 1,368,542	$ 203,637	$ 30,021	$ 1,602,200
EQUITY:				
Fund Balances —				
Reserved —				
Reserved for encumbrances	$ 149,675	$ 265,393	$ —	$ 415,068
Reserved for restricted donations	3,638	—	—	3,638
Reserved for specific purposes	56,579	—	—	56,579
Reserved for debt service	—	—	407,458	407,458
Unreserved	201,520	261,009	—	462,529
Total Equity	$ 411,412	$ 526,402	$ 407,458	$ 1,345,272
Total Liabilities and Equity	$ 1,779,954	$ 730,039	$ 437,479	$ 2,947,472

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2001

With Comparative Amounts for the Fiscal Year Ended June 30, 2000

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2001	Total Fiscal Year Ended June 30, 2000
REVENUES:					
Property taxes	$ 1,379,010	$ —	$ 50,861	$ 1,429,871	$ 1,403,657
Replacement taxes	71,230	—	66,514	137,744	147,657
State aid	1,275,707	—	156,070	1,431,777	1,374,626
Federal aid	552,311	81,783	—	634,094	539,567
Investment income	42,501	42,756	18,263	103,520	85,075
Other	78,107	4,304	—	82,411	85,587
Total Revenues	$ 3,398,866	$ 128,843	$ 291,708	$ 3,819,417	$ 3,636,169
EXPENDITURES:					
Current:					
Instruction	$ 1,995,423	$ —	$ —	$ 1,995,423	$ 1,888,879
Pupil support services	303,071	—	—	303,071	301,714
Administration support services	125,930	—	—	125,930	159,657
Facilities support services	317,411	—	—	317,411	242,044
Instructional support services	286,846	—	—	286,846	282,664
Food services	166,365	—	—	166,365	161,614
Community services	73,718	—	—	73,718	73,792
Teacher's pension	65,045	—	—	65,045	65,045
Capital outlay	394	527,508	—	527,902	547,365
Debt service	1,421	—	193,889	195,310	148,854
Other	17,495	—	—	17,495	6,825
Total Expenditures	$ 3,353,119	$ 527,508	$ 193,889	$ 4,074,516	$ 3,878,453
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	$ 45,747	$ (398,665)	$ 97,819	$ (255,099)	$ (242,284)
OTHER FINANCING SOURCES (USES)					
Gross proceeds from debt issuances	$ —	$ 471,817	$ 2,643	$ 474,460	$ 331,299
Net premiums/discounts	—	(2,644)	—	(2,644)	—
Operating Transfers In/(Out)	(46,797)	(13,202)	59,999	—	—
TOTAL OTHER FINANCING SOURCES (USES)	$ (46,797)	$ 455,971	$ 62,642	$ 471,816	$ 331,299
REVENUES AND OTHER FINANCING SOURCES (USES) IN EXCESS OF (LESS THAN) EXPENDITURES	$ (1,050)	$ 57,306	$ 160,461	$ 216,717	$ 89,015
Fund Balances, beginning of period	$ 564,952	$ 469,096	$ 246,997	$ 1,281,045	$ 1,192,030
Cumulative Effect of Change in Accounting Principles	(152,490)	—	—	(152,490)	(152,490)
Fund Balances, beginning of period (restated)	$ 412,462	$ 469,096	$ 246,997	$ 1,128,555	$ 1,039,540
Fund Balances, end of period	$ 411,412	$ 526,402	$ 407,458	$ 1,345,272	$ 1,128,555

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES BY OBJECT
OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES
FINAL APPROPRIATIONS VS. ACTUAL — GENERAL OPERATING FUND
For the Fiscal Year Ended June 30, 2001
(Thousands of Dollars)

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
REVENUES:					
Property taxes	$ 1,366,100	$ —	$ 1,366,100	$ 1,379,010	$ 12,910
Replacement taxes	79,584	—	79,584	71,230	(8,354)
State aid	1,282,596	—	1,282,596	1,275,707	(6,889)
Federal aid	589,973	—	589,973	552,311	(37,662)
Investment income	31,736	—	31,736	42,501	10,765
Other	74,894	—	74,894	78,107	3,213
Total Revenues	$ 3,424,883	$ —	$ 3,424,883	$ 3,398,866	$ (26,017)
EXPENDITURES:					
Salaries —					
Teachers	$ 1,602,500	$ 36,568	$ 1,639,068	$ 1,639,064	$ 4
Career services	437,400	35,717	473,117	452,502	20,615
Commodities —					
Energy	50,900	66	50,966	71,234	(20,268)
Food	89,500	744	90,244	90,691	(447)
Textbooks	36,600	54,219	90,819	74,305	16,514
Supplies	25,200	24,281	49,481	37,702	11,779
Other	900	294	1,194	1,091	103
Services —					
Professional and construction	138,600	74,293	212,893	185,746	27,147
Transportation	94,700	23,586	118,286	105,373	12,913
Tuition	93,500	17,376	110,876	107,491	3,385
Telephone and telecommunications	7,200	(395)	6,805	24,543	(17,738)
Other	10,800	13,393	24,193	15,767	8,426
Equipment — Educational	19,600	42,007	61,607	48,924	12,683
Building and sites —					
Repairs and replacements	62,600	(7,721)	54,879	52,112	2,767
Capital outlay	—	139	139	58	81
Fixed charges —					
Teachers' pension	194,100	(8,241)	185,859	181,775	4,084
Career service pension	65,900	2,139	68,039	64,104	3,935
Hospitalization and dental insurance	169,300	(8,638)	160,662	161,192	(530)
Medicare	21,700	472	22,172	20,261	1,911
Unemployment compensation	3,600	(23)	3,577	1,740	1,837
Workers compensation	9,900	12,587	22,487	8,312	14,175
Rent	5,778	3,435	9,213	7,283	1,930
Debt service	1,500	1	1,501	1,421	80
Other	337,800	(316,299)	21,501	428	21,073
Total Expenditures	$ 3,479,578	$ —	$ 3,479,578	$ 3,353,119	$ 126,459
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	$ (54,695)	$ —	$ (54,695)	$ 45,747	$ 100,442
OTHER FINANCING SOURCES (USES)					
Operating Transfers Out	—	(46,797)	(46,797)	(46,797)	—
REVENUES AND OTHER FINANCING SOURCES (USES) IN EXCESS OF (LESS THAN) EXPENDITURES	$ (54,695)	$ (46,797)	$ (101,492)	$ (1,050)	$ 100,442
Fund Balances, beginning of period	$ 564,952	$ —	$ 564,952	$ 564,952	$ —
Cumulative Effect of Change in Accounting Principles	(152,490)	—	(152,490)	(152,490)	—
Fund Balances, beginning of period (restated)	$ 412,462	$ —	$ 412,462	$ 412,462	$ —
Fund Balances, end of period	$ 357,767	$ (46,797)	$ 310,970	$ 411,412	$ 100,442

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

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

June 30, 2001

(Thousands of Dollars)

Total fund balances — governmental funds		$ 1,345,272
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.		
Prepaid interest		9,628
Deferred charges — bond issuance costs		4,334
The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets are allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governmental funds.		
Cost of capital assets	5,000,517	
Accumulated depreciation	(1,633,080)	3,367,437
Long-term liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as governmental fund liabilities. Interest payable on debt and other long-term obligations are also not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Long-term liabilities		(4,281,159)
Interest payable		(19,266)
Revenues that have been deferred in the governmental funds but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		771,140
Other deferred revenue		158,601
Net Assets		$ 1,355,987

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

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

For the Year Ended June 30, 2001

(Thousands of Dollars)

Total net change in fund balances — governmental funds		$ 216,717
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for government-wide activities those costs are shown in the Statement of Nets Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceed the depreciation in the period.		
Capital outlay/equipment	$ 464,822	
Depreciation expense	(125,172)	339,650
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets		(467,347)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities		40,350
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest cost is recognized as the interest accrues, regardless of when it is due		(21,617)
Bond discount, bond premium and issuance cost are amortized over the lives of the bonds in the Statement of Activities but are recorded as a reduction from the proceeds from sales of bond in the governmental funds		(330)
Since some property taxes and grants will not be collected for several months after the CPS' fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead recorded as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
Property taxes		30,071
Grants		6,113
In the Statement of Activities, only the gain on the sale of property is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balances by the original cost of the property sold		(145)
In the Statement of Activities, sick pay, vacation pay, workers' compensation, and net pension obligation are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid.		
Sick pay		(4,778)
Vacation pay		390
Workers' compensation		(6,508)
Net pension obligation		(125,014)
Change in Net Assets		$ 7,552

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As a result of legislation passed by the Illinois General Assembly, which became effective on June 30, 1995, the Mayor of the City of Chicago appoints the Board of Education of the City of Chicago. The Board is excluded from the City's reporting entity because it does not meet the financial accountability criteria for inclusion established by the Governmental Accounting Standards Board Statement No. 14 (GASB No. 14).

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

Adoption of New Accounting Standards

During fiscal year 2001, CPS adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions (GASB No. 33)*. In connection with the adoption of this statement, fund balance, at June 30, 2000, has been reduced by $152.5 million. GASB No. 33 established new accounting and financial reporting standards for nonexchange transactions, which as a general matter, encompass most taxes, grants and private donations. In a nonexchange transaction, a governmental entity receives (or gives) value without giving (or receiving) equal value in return. The issue addressed in GASB No. 33 is the timing of recognition of such nonexchange transactions the result of which is an accounting adjustment to opening fund balance and a deferral of revenue.

During fiscal year 2001, CPS also adopted GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, issued June 1999; GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*, an amendment to GASB No. 33; GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis — for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001, and; in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

The gross cost of fixed assets and accumulated depreciation balances at June 30, 2000 were restated to capitalize assets and record accumulated depreciation in accordance with the adoption of GASB No. 34. The gross cost balances at June 30, 2000 were also restated to reflect the increase in the capitalization threshold from $15,000 to $25,000.

The following table shows beginning net assets restated for the effects of implementation of GASB No. 34 ($000's):

Fund Balance at June 30, 2000 — Governmental Funds (as restated for GASB 33)	$ 1,128,555
Long-term Liabilities (Restated)	(3,674,171)
Net Capital Assets (Restated)	3,027,596
Deferred Property Tax Revenue	741,069
Accrued Interest	(27,104)
Deferred Block Grants	152,490
Restated Net Assets as of July 1, 2000	$ 1,348,435

The restatements of Long-term Liabilities and Net Capital Assets are discussed in Notes 10 and 6, respectively.

Description of Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the government-wide entity as a whole. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

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

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

Government-Wide and Fund Financial Statements

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year end. For this purpose, the CPS considers revenues, other than property taxes, that are susceptible to accrual to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds

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

Governmental Fund

a. General Operating Fund

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

- Educational Program
- Supplementary General State Aid Program (formerly State Chapter 1)
- School Food Service Program
- Improving America's Schools Act Program
- Education of the Handicapped Program
- Medicare Program
- Workers' and Unemployment Compensation/Tort Immunity Program
- Public Building Commission Operations and Maintenance Program
- Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

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

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2000 property taxes were levied for fiscal year 2001 in December 2000, and were be billed in fiscal year 2001. In 2001, the installment due dates were March 1 and November 1. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. Collections of property tax installments are received by the 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 levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the levy for the current fiscal year is passed by the Board.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets

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

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

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

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

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

Depreciation of buildings and building improvements is calculated using a composite rate and the CPS has estimated the composite rate to be 32 years for fiscal year 2001. This composite rate of 32 years was also used to determine accumulated depreciation as of June 30, 2000.

Vacation and Sick Pay

The CPS provides vacation and sick pay benefits for substantially all of its employees. The CPS records all vested vacation and sick pay benefits and an estimated liability for non-vested sick pay benefits. The CPS used the Termination Payment Method, pursuant to GASB Statement No. 16, *Accounting for Compensated Absences*, to calculate sick-pay liability.

Long-term Liabilities

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balances and Equity

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

Net Assets on the Statement of Net Assets include the following:

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

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

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

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

Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

In June 2000, the Board adopted a balanced budget for the fiscal year 2001 general operating fund that reflected total appropriations of $3.48 billion. In June 2001, the Board adopted a balanced budget for the fiscal year 2002 general operating fund that reflected total appropriations of $3.56 billion.

The Capital Projects Fund is budgeted on a project by project basis. Budgeted amounts in the Capital Projects Fund represent the entire project budget for projects that were expected to commence in fiscal year 2001. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

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

Legal limitations on tax rates and the rates extended in calendar years 2001 and 2000 are shown below.

	Maximum 2001 Legal Limit	Tax Rates Extended Per $100 of EAV 2001	2000
General Operating Fund:			
Educational	(A)	$ 2.755	$ 3.000
Medicare	(B)	.047	.048
Workers' and Unemployment Compensation/Tort Immunity	(B)	.141	.206
Public Building Commission Operation and Maintenance	(B)	.640	.701
Public Building Commission Lease Fund	(B)	.131	.149
		$ 3.714	$ 4.104

A. The 2001 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 School Finance Authority.

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

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

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

Revenues:	**Governmental Fund Financial Statements**	**Government Wide Financial Statements**
General State Aid Unrestricted	$ 469,359	$ 469,359
Supplementary General State Aid	261,000	261,000
State Teachers' Pension Funding	65,045	65,045
General Education Block Grant	116,336	116,336
Educational Services Block Grant	307,578	313,691
Capital Grants	142,823	142,823
Other Restricted State Revenue	69,636	69,636
Total State Aid	$ 1,431,777	$ 1,437,890

NOTE 4. CASH AND INVESTMENTS

Cash and investments held in the name of the Chicago Public Schools 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, all cash is deposited in bank accounts designated by the City Treasurer for the exclusive use of the CPS.

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

The Chicago Public Schools Investment Policy and the Municipal Code of Chicago, require collateral with an aggregate market value of not less than 110% of the original acquisition price, including principal and accrued interest, on 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 ordinances allow only regularly organized State or national banks insured by the Federal Deposit Insurance Corporation, and Federal and State savings and loan associations insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation located within the City of Chicago, to be designated depositories.

As of June 30, 2001, the book amount of the CPS' deposit accounts was approximately negative $11,300,000. The bank balance as of June 30, 2001, was $78,931,798. The difference between book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2001. The bank balance was covered by Federal depository insurance and by collateral held by the CPS' agent.

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, 2001, 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, 2001, are categorized to give an indication of custodial risk assumed by CPS.

	Category			Carrying
($000's)	**1**	**2**	**3**	**Amount**
Repurchase Agreements	$ 757,604	$ —	$ —	$ 757,604
U.S. Government Agency Securities	603,876	—	—	603,876
Commercial Paper	159,231	—	—	159,231
Certificates of Deposit	4,000	—	—	4,000
Total	$ 1,524,711	$ —	$ —	$ 1,524,711
Money Market Funds				148,806
Total Investments				$ 1,673,517
Cash				(11,300)
Total Cash and Investments				$ 1,662,217

Investments are categorized into these three categories of credit risk:

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

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

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

NOTE 5. RECEIVABLES

Receivables as of June 30, 2001 for the CPS, including the applicable allowance for uncollectible accounts, are as follows ($000's):

	Governmental Fund Financial Statements	Government Wide Financial Statements
Property taxes	$ 820,665	$ 820,665
Replacement taxes	25,636	25,636
State aid	275,060	275,060
Federal aid	89,472	89,472
Other	21,428	21,428
Gross receivables	$ 1,232,261	$ 1,232,261
Less: Allowance for Uncollectibles	(37,587)	(37,587)
Total Receivables, net	$ 1,194,674	$ 1,194,674

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2001, the various components of deferred revenue reported in the governmental funds are as follows ($000's):

Deferred property taxes	$ 771,140
Educational services block grant	158,601
Total Deferred Revenue	$ 929,741

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2001 was as follows ($000's):

Governmental activities:	**Beginning Balance**	**Increases**	**Decreases and Transfers to In-service**	**Ending Balance**
Capital assets, not being depreciated:				
Land	$ 140,930	$ 14,695	$ (145)	$ 155,480
Construction in progress	106,900	42,000	(106,900)	42,000
Total capital assets not being depreciated	$ 247,830	$ 56,695	$ (107,045)	$ 197,480
Capital assets being depreciated:				
Buildings and improvements	$ 4,240,010	$ 512,276	$ —	$ 4,752,286
Equipment and administrative software	47,664	3,087	—	50,751
Total capital assets being depreciated	$ 4,287,674	$ 515,363	$ —	$ 4,803,037
Total Assets	$ 4,535,504	$ 572,058	$ (107,045)	$ 5,000,517
Less accumulated depreciation for:				
Buildings and improvements	$ (1,495,266)	$ (116,390)	$ —	$ (1,611,656)
Equipment and administrative software	(12,642)	(8,782)	—	(21,424)
Total accumulated depreciation	$ (1,507,908)	$ (125,172)	$ —	$ (1,633,080)
Governmental activities capital assets, net	$ 3,027,596	$ 446,886	$ (107,045)	$ 3,367,437

The beginning balance for Buildings and improvements has been increased by $41.1 million to reflect information that was not previously available. The beginning balance for Equipment and administrative software was decreased by $33.6 million to reflect the increase in the capitalization threshold from $15,000 to $25,000.

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

Governmental activities:	
Instruction	$ 79,082
Pupil support services	11,966
Administrative support services	4,972
Facility support services	11,622
Instructional support services	11,340
Food services	6,190
Total Depreciation	$ 125,172

Construction Commitments

The CPS has active construction projects as of June 30, 2001. These projects include new construction and renovations of schools. At year end, the CPS had approximately $265.4 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

The following balances as of June 30, 2001 represent Due from/to balances among all funds ($000's):

General Operating Fund:	
Due from Capital Improvement Program	$ 82,758
Due to Capital Asset Program	(12,384)
Due to Bond Redemption and Interest Program	(50,282)
Due from Public Building Commission Leases Program	(1,515)
Total — Due from other Funds	$ 18,577
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 12,384
Capital Improvement Program — Due to General Operating Fund	(82,758)
Total — Due to other Funds	$ (70,374)
Debt Service Fund:	
Bond Redemption and Interest Program — Due to General Operating Fund	$ 50,282
Public Building Commission Leases Program — Due to General Operating Fund	1,515
Total — Due from other Funds	$ 51,797

Transfers

Effective June 30, 2001, CPS made operating transfers of $16.5 million from the Capital Improvement Program Fund to the Public Building Commission Leases Fund to fund rental payments to the Public Building Commission; $46.8 million from the General Operating Fund to the Bond Redemption and Interest Fund to fund future debt service, and; $3.3 million of interest earnings from the Bond Redemption and Interest Fund to the General Operating Fund.

NOTE 8. LONG-TERM DEBT

a. General Obligation Bonds

The CPS had the following bond issuances in fiscal year 2001:

Unlimited Tax General Obligation Bonds (Series 2001A)

In March 2001, CPS issued $45,110,000 in Unlimited Tax General Obligation Bonds Series 2001A. The proceeds from these bonds are being used as part of the CPS' Capital Improvement Program. As a result of the issuance, CPS recorded net proceeds of $44,967,741 in the Capital Improvement Fund.

Qualified Zone Academy Bonds (Series 2000E)

In December 2000, the Board issued $13,390,000 in Qualified Zone Academy Bonds (Series 2000E). The bonds were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue

Code, who own the Series 2000E bonds will be entitled to a credit against taxable income. Net proceeds of $13,224,398 from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies known as Crane Technical Preparatory Common School, Farragut Career Academy, Kenwood Academy High School, Lindblom Technical High School and Sullivan High School.

Unlimited Tax General Obligation Bonds (Series 2000B,C,D)

In September 2000, CPS issued $303,000,000 in Unlimited Tax General Obligation Bonds (Series 2000B, C and D) (each Series is equal to $101,000,000 principal outstanding). These bonds are the first variable rate bonds issued by CPS with the initial interest rate resetting weekly. As a result of the issuance, CPS recorded net proceeds of $300,504,586 in the Capital Improvement Fund.

Unlimited Tax General Obligation Bonds (Series 2000A)

In July 2000, CPS issued $106,960,000 in Unlimited Tax General Obligation Bonds Series 2000A. The proceeds from these bonds are being used as part of the CPS' Capital Improvement Program. As a result of the issuance, CPS recorded net proceeds of $100,023,465 in the Capital Improvement Fund. The remaining proceeds of $2,132,783 were used to fund future interest payments.

b. Other Long-term Debt

State Technology Revolving Loan (STRL)

In fiscal year 2001, the CPS entered into a promissory note for $6,000,000 with the Illinois State Board of Education, the proceeds of which are to go toward the purchase of computers for schools. The term of the note is for three years at an interest rate of 2.5%.

NOTE 8. LONG-TERM DEBT (continued)

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

Series	Principal Outstanding June 30, 2000	Issuances	Retirements	Principal Outstanding June 30, 2001	Accreted Interest	Principal and Accreted Interest June 30, 2001
2001A	$ —	$ 45,110	$ —	$ 45,110	$ —	$ 45,110
2000E		13,390	—	13,390	—	13,390
2000B,C,D	—	303,000	—	303,000	—	303,000
2000A	—	106,960	—	106,960	—	106,960
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	532,554	—	—	532,554	37,268	569,822
1998B-1	328,714	—	—	328,714	47,471	376,185
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	—	499,995	8,009	508,004
1997	496,070	—	4,125	491,945	—	491,945
1996	127,225	—	—	127,225	—	127,225
Total Bonds	$ 2,010,558	$ 468,460	$ 4,125	$ 2,474,893	$ 92,748	$ 2,567,641
STRL	—	6,000	—	6,000	—	6,000
Asbestos Abatement	15,438	—	2,185	13,253	—	13,253
Total Long-term Debt	$ 2,025,996	$ 474,460	$ 6,310	$ 2,494,146	$ 92,748	$ 2,586,894
Less Current Portion and Net Premium/Discount						(13,981)
Total Long-term Debt, net of Current Portion and Premium/Discount						$ 2,572,913

The Unlimited Tax General Obligation Bonds are being repaid in the Debt Service Fund from Replacement Tax revenue, from an Intergovernmental Revenue Agreement with the City of Chicago to the extent possible, and then from a separate tax levy associated with the bonds. The future payments are scheduled as follows ($000's):

	Maturities		
Fiscal Year(s)	**Principal**	**Interest**	**Total**
2002	$ 9,610	$ 100,213	$ 109,823
2003	10,765	98,934	109,699
2004	11,305	98,358	109,663
2005	11,915	97,719	109,634
2006	12,595	97,064	109,659
2007-2011	187,819	528,396	716,215
2012-2016	382,429	595,186	977,615
2017-2021	471,287	575,027	1,046,314
2022-2026	664,623	569,042	1,233,665
2027-2031	639,978	595,133	1,235,111
2032	72,567	174,021	246,588
Total	$ 2,474,893	$ 3,529,093	$ 6,003,986

Interest rates on the bonds range from 4.0% to 6.75%, except that CPS does not pay or accrue interest on the Series 2000E bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. Interest and maturities

NOTE 8. LONG-TERM DEBT (continued)

include $1,487,527,000 of accretable interest on the Capital Appreciation Bonds ($53,485,000 for the Series 1997A Bonds, $816,756,000 for the Series 1998B-1 Bonds and $617,287,000 for the Series 2000A Bonds).

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

NOTE 9. CAPITALIZED LEASE OBLIGATIONS

Public Building Commission Lease Obligation

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, are established when the CPS approves such construction.

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.

The future PBC and capitalized equipment leases due at June 30, 2001, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals	Equipment Leases	Total
2002	$ 113,365	$ 3,099	$ 116,464
2003	133,102	1,810	134,912
2004	133,599	974	134,573
2005	167,906	232	168,138
2006	51,360	34	51,394
2007-2020	705,827	—	705,827
Total rentals	$ 1,305,159	$ 6,149	$ 1,311,308
Less — Interest and other costs	(455,375)	(1,218)	(456,593)
Principal amount of rentals due	$ 849,784	$ 4,931	$ 854,715

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

	Balance June 30, 2000	Additions	Retirements	Balance June 30, 2001
PBC Leases	$ 884,589	$ —	$ (34,805)	$ 849,784
Capitalized Lease Obligations	4,597	334	—	4,931
Total	$ 889,186	$ 334	$ (34,805)	$ 854,715
Less: Current Portion				(63,939)
Total PBC Leases and Long-term Capitalized Lease Obligations Outstanding				$ 790,776

NOTE 10. OTHER LONG-TERM LIABILITIES

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

	Balance June 30, 2000	Net Additions (Reductions)	Balance June 30, 2001
Accrued Sick Pay Benefits (as restated)	$ 158,054	$ 4,778	$ 162,832
Accrued Vacation Pay Benefits	20,346	(390)	19,956
Accrued Workers' Compensation Claims (as restated)	20,815	6,507	27,322
Tort Liabilities and other claims	5,525	—	5,525
Total	$ 204,740	$ 10,895	$ 215,635
Less Current Portion			(17,615)
Total Other Long-term Liabilities			$ 198,020

The beginning balance of Accrued Sick Pay Benefits was increased by $72.8 million to reflect the liability for non-vested employees that was excluded from the Long-term Obligation Account Group in the June 30, 2000 financial statements. The beginning balance of Accrued Workers' Compensation Claims was increased by $13.1 million to reflect the inclusion of information not previously available.

Sick Pay Benefits

The CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate up to a maximum of 295 sick days in fiscal year 2001, 305 days beginning in fiscal year 2002, 315 days beginning in fiscal year 2003. If an employee either reaches age 65; is age 58 with between 20 and 33 years of service; has 34 years of service, or; dies, they are entitled to receive as additional cash compensation, a portion of their accumulated sick leave days. The CPS budgets an amount each year in the general operating fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

For vested employees, the maximum number of accumulated unused vacation days permitted is 36 days for eligible employees with up to 10 years of service; 48 days for those with 10 to 20 years of service; and 60 days for those with more than 20 years of service. All employees are entitled to receive 100% of accumulated vacation days at their current salary rate.

Accrued Workers' Compensation, Tort Liabilities and Other Claims

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

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

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

During fiscal years 1999, 2000 and 2001 no settlements were made in excess of the self-insured amount.

NOTE 10. OTHER LONG-TERM LIABILITIES (continued)

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

As discussed in Note 14, 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 expense as soon as the liability in incurred. As further described in Note 3, 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 CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis).

A current liability has been recorded in the General Operating Fund for medical claims which includes $24,520,000 for estimated medical claims incurred but not reported as of June 30, 2001.

NOTE 11. PENSION BENEFITS

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

The retirement, survivor and disability benefits provided by the Pension Fund are governed by Article 17 of the Illinois Pension Code. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2000, there were approximately 34,720 participants in the Pension Fund, substantially all of who were employees of the CPS.

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

Participating members contribute 9% of salary, allocated as follows: 7.5% for retirement pension, 0.5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 2001, as in previous fiscal years, the CPS agreed to pay a portion (7% – $102,428,000) 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 General Operating Fund revenues. The remaining portion (2%) is withheld from teachers' salaries.

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

Retirement benefit contribution:	
An appropriation from the Illinois General Assembly	$ 65,045
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	8,327
Early retirement pension contributions	5,975
Total contributions	$ 79,347

For the fiscal year ended June 30, 2001, employee contributions are $131,693,000 which is 9% of covered payroll. Employer contributions for the year are $79,347,000 which is approximately 5.6% of covered payroll.

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

The fund financial statements reflect expenditures on both a functional and account basis. Teachers' pension expenditures reflected on an account basis include both the CPS' employer share of pension expenditures of $79,347,000 and amounts incurred by the CPS for a portion of the required employees' pension contribution of $102,428,000, which total $181,775,000. 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.

The CPS' annual pension cost for fiscal years 2001 and 2000 are as follows ($000's):

	2001	2000	1999
Annual required contribution	$ 188,923	$ 138,441	$ 125,335
Interest on Net Pension Obligation (NPO)	40,148	34,179	29,020
Adjustment to annual required contribution	(24,710)	(21,036)	(17,861)
Annual Pension Cost (APC) for the fiscal year ended June 30, 2001	$ 204,361	$ 151,584	$ 136,494
Less: Contributions made	(79,347)	(76,972)	(72,010)
Increase in NPO	$ 125,014	$ 74,612	$ 64,484
Add NPO, beginning of year	501,851	427,239	362,755
NPO, end of year	$ 626,865	$ 501,851	$ 427,239

Actuarial valuation date	June 30, 2000
Actual cost method	Projected Unit Credit Actuarial Cost Method
Amortization method	Level percent, open
Remaining amortization period	40 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	average of 5.5% annually
Inflation	3%

The Statement of Activities reflect pension expense equal to the actuarially determined APC which have been allocated to functions/programs based on salaries and benefits.

NOTE 11. PENSION BENEFITS (continued)

At June 30, 2000, June 30, 1999 and August 31, 1998 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2000	1999	1998
Actuarial value of assets	$ 9,612,203	$ 8,620,060	$ 8,007,098
Less: Actuarial Accrued Liability (AAL)	(9,940,372)	(8,551,880)	(8,015,603)
AAL unfunded (surplus)	$ 328,169	$ (68,180)	$ 8,505
Funded ratio	96.7%	100.8%	99.9%
Covered payroll	$ 1,651,810	$ 1,521,182	$ 1,434,015
Unfunded AAL as a percentage of covered payroll	19.87%	(4.48%)	0.59%

	2001	2000
Annual pension cost	$ 204,361	$ 151,584
Percentage of annual pension cost contributed	39%	50%
Net Pension Obligation	$ 626,865	$ 501,851

The Fund had a significant decrease in its investment portfolio subsequent to year-end due to declining market conditions as a result of a softening economy. During the period from July through October 2001 the fair value of the Fund's investments decreased approximately $712,870,000 (7.4%) to $8,973,713,000 as of October 31, 2001.

In the opinion of the CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by the CPS; however, the CPS is required to provide funding in addition to amounts provided from Federal and State Sources if the funded ratio drops below 90%. No additional General Operating Fund appropriation was required for the fiscal year ended June 30, 2001.

OTHER PERSONNEL —

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

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

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

Covered employees are required by Article 8, Chapter 40 of the Illinois Compiled Statutes to contribute a percentage of their salary (8.5%). In fiscal year 2001, as in previous fiscal years, the CPS agreed to pay a portion (7% – $26,690,440) 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 $3,493,560, which are remitted to the Annuity Fund, have been recorded as revenues and expenditures in the General Operating Fund in fiscal year 2001. The amount reflected as career service pension expenditures in the accompanying governmental fund financial statements is $64,104,000, $26,690,440 of

NOTE 11. PENSION BENEFITS (continued)

this amount represents the required employees' contribution paid by the CPS on behalf of its employees, and $33,920,000 is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining $3,493,560 is funded under Federally-funded programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund.

Career service pension expense in the government-wide financial statements is $64,104,000.

As of December 31, 2000, the date of the latest available report, the Annuity Fund had net assets of approximately $6,126,238,000 and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $367,000,000. The CPS employs more than half of the 36,000 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 12. THE CHICAGO SCHOOL FINANCE AUTHORITY

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

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

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

The amount of Authority bonds outstanding at June 30, 2001, net of bonds advance refunded or defeased is $521,580,000. The Authority's bonds are not a direct or contingent obligation of the CPS.

The principal amount of general obligation bonds of the Authority at June 30, 2001 is shown below ($000's).

	Maturities		
Fiscal Year(s)	**Principal and Sinking Fund Installments**	**Interest**	**Total**
2002	$ 63,400	$ 27,349	$ 90,749
2003	66,770	24,019	90,789
2004	56,900	20,616	77,516
2005	59,710	17,805	77,515
2006	78,595	14,795	93,390
2007-2009	196,205	21,576	217,781
Total	$ 521,580	$ 126,160	$ 647,740

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

The Authority is a separate body politic and corporate and a unit of local government with the power to levy property taxes. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The Authority had various financial oversight powers related to the CPS until June 30, 1995. Public Act 90-757 suspended the powers of the Authority until 2004.

NOTE 13. FUND BALANCE

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

Purpose	Reserved Amount
Workers' Compensation/Tort Immunity	$ 11,593
Medicare	1,368
Supplementary General State Aid	30,218
Public Building Commission Operations and Maintenance	13,400
Total	$ 56,579

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2000 Supplementary General State Aid allocation.

In its fiscal year 2002 budget, CPS appropriated in its General Operating Fund $39.9 million of fund balances from amounts reserved for specific purposes.

During fiscal year 2001, the Board reserved $407,458,000 for Debt Service of which $205,515,000 was allocated to the Bond Redemption and Interest Fund and the remaining $201,943,000 was allocated to the Public Building Commission Leases Fund.

NOTE 14. LITIGATION AND CONTINGENCIES

a. Pension Fund Litigation

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

NOTE 14. LITIGATION AND CONTINGENCIES (continued)

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.

b. Teacher Tenure

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

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

On September 17, 2001, the Board filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on October 20, 2001. The Board intends to continue to litigate this matter vigorously and will now ask the Illinois Supreme Court to review the delegation issue.

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

c. Property Tax Appeals Board Decisions

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

NOTE 14. LITIGATION AND CONTINGENCIES (continued)

PTAB has continued to apply a lower level of assessment to certain commercial and industrial properties that have come before it on appeal and has awarded property tax refunds to such property owners.

The Board of Review, through the Cook County State's Attorney, appealed the March 2000 decisions to the Illinois Appellate Court. The Board filed an amicus brief in these cases and awaits the ruling of the Appellate Court. In September 2001, the Board of Review petitioned the Appellate Court to review the August 2001 decisions of the PTAB. The Board and other taxing jurisdictions plan to file amicus briefs in these cases.

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

d. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2001, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2001.

e. Asbestos and Lead Abatement

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

f. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers' compensation, torts, property tax objections, and other matters, arising out of CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2001, in excess of related insurance coverage with respect to certain claims, are not determinable at this time. In the opinion of CPS management and legal counsel, the final resolution of these claims and legal actions will not be material to CPS' financial statements as of June 30, 2001.

NOTE 15. SUBSEQUENT EVENTS

Qualified Zone Academy Bonds (Series 2001B)

In October 2001, the CPS issued $9,440,000 in Qualified Zone Academy General Obligation Bonds (Series 2001B). The Bonds were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds. However, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own the Series 2001B bonds will be entitled to a credit against taxable income. Net proceeds of $9,198,000 from these bonds are being used to renovate, rehabilitate and equip the qualified zone academies known as George Henry Corliss High School, John F. Kennedy High

School, Wendell Phillips Academy High School, Senn High School, and William H. Wells Community Academy.

Unlimited Tax General Obligation Bonds (Series 2001C)

In December 2001, CPS issued $217,260,000 in Unlimited Tax General Obligation Bonds (Series 2001C). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program. As a result of the issuance, CPS recorded net proceeds of $215,003,012 in the Capital Improvement Fund in fiscal year 2002.

APPENDIX B

Summary of Certain Provisions of the Indenture

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

DEFINITIONS OF CERTAIN TERMS

"2002 Resolution" means the resolution adopted by the Board on July 24, 2002 authorizing the issuance of Alternate Bonds in an amount not to exceed $500,000,000.

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

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

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

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

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

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

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

"Board Advance" means, at any time of determination, an amount equal to (a) the sum of (i) the cumulative amount of funds deposited into the Board Contribution Sub-Account pursuant to the Indenture, (ii) the cumulative amount of any Pledged Taxes extended for collection by the County Collectors pursuant to the Indenture and the Bond Resolution, and (iii) the amount of accrued interest on such funds so deposited and Pledged Taxes so extended from time to time from the February 1 prior to the date(s) of such deposit or such tax levy extension to the date of determination calculated at the Board Investment Rate by the Trustee, reduced by (b) the cumulative amount, if any, of payments made to the Board pursuant to the Indenture.

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

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

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

"Bond Insurance Policy" means the Financial Guaranty Insurance Policy issued by the Bond Insurer insuring the payment of the principal of and interest on the Bonds as provided therein.

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

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

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

"Bond Resolution" means the resolution adopted by the Board on August 28, 2002 authorizing the issuance of one or more series, from time to time, of its Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2002A, in an aggregate principal amount not to exceed $60,000,000.

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

"Bonds" means the $48,970,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2002A, of the Board, being issued under the Indenture and any Bonds issued thereunder in substitution or replacement therefor.

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

*"Capitalized Interest Sub-Accoun*t" means the sub-account of that name in the Pledged City Note Revenues Account established by the Indenture.

"City" means the City of Chicago, Illinois.

"City Note" means the City's Tax Increment Allocation Revenue Note (24th/Michigan Redevelopment Project) Series 2002A in a maximum principal amount not to exceed $47,000,000 which shall be issued by the City to the Board for the purpose of paying a portion of

the cost of, or reimbursing the School District for the payment of the cost of, certain improvements described in the Intergovernmental Agreement.

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

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

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

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

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

"Debt Service" means, for any period of computation, the principal of and interest on the Bonds becoming due and payable (whether upon maturity or otherwise) during such period.

"Debt Service Fund" means the fund so designated established by the Indenture.

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

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

"Deposit Date" means February 2 of each year commencing February 2, 2003 or, if such day is not a Business Day, the next succeeding Business Day.

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

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

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

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

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

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

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

"Indenture" means the Trust Indenture, dated as of September 1, 2002, by and between the Board and the Trustee, as from time to time amended and supplemented.

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

"Intergovernmental Agreement" means the Intergovernmental Agreement made April 1, 2002 between the Board and the City pursuant to which the City has agreed to issue its City Note, as amended and supplemented from time to time.

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

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

(i) Government Obligations;

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

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

(iii) Senior debt obligations which at the time of purchase are rated "AAA" by Standard & Poor's, a division of the McGraw-Hill Companies ("S&P") and "Aaa" by Moody's Investors Service *("Moody's")* issued by 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 which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

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

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

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

(viii) Pre-refunded Municipal Obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

> (A) which are rated, based on an irrevocable escrow account or fund (the *"escrow"),* in the highest rating category of S&P and Moody's or any successors thereto; or
>
> (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

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

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

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

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

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

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

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

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

"Remaining Debt Service Amount" means, for any date of determination, the cumulative amount of the principal of and interest on the Bonds scheduled to become due and payable after such date of determination.

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

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

"State" means the State of Illinois.

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

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

"Trustee" means Cole Taylor Bank, Chicago, Illinois, and any successor or successors appointed under the Indenture as thereinafter provided.

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

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

PLEDGE OF TRUST ESTATE

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

(a) The Pledged City Note Revenues and the Pledged Taxes.

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

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

THE BONDS ARE GENERAL OBLIGATIONS

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

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

ADDITIONAL BONDS PAYABLE FROM PLEDGED CITY NOTE REVENUES

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

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

PROVISIONS REGARDING PAYMENT OF BONDS

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

PROVISIONS REGARDING TRANSFER AND EXCHANGE OF BONDS

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

ESTABLISHMENT AND APPLICATION OF PROJECT FUND

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

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

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

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

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

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

The completion, substantial completion or abandonment of the Project is to be evidenced by a certificate of an Authorized Officer, which is to be filed promptly with the Trustee, stating the date of such completion, anticipated completion, abandonment or reduction in scope and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the Project 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.

ESTABLISHMENT AND APPLICATION OF DEBT SERVICE FUND AND ACCOUNTS

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

The proceeds of the Bonds deposited to the credit of the Capitalized Interest Sub-Account pursuant to the Indenture, and any other amounts deposited to the credit of such Sub-Account, will be transferred to the Interest Sub-Account and applied to the payment of the interest due on the Bonds on such dates as described below. Promptly upon payment of principal of, premium, if any, or interest on the City Note, the Board will deposit, or cause to be deposited, to the credit of the Pledged City Note Revenues Sub-Account all such Pledged City Note Revenues.

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

As described in the Indenture, the Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. All Pledged Taxes received by the Trustee shall be deposited promptly upon receipt into the Pledged Taxes Account and applied to the payment of the interest on and principal of the Bonds due during the Year in which said Pledged Taxes are collected.

On the Deposit Date, the Trustee shall transfer moneys *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Capitalized Interest Sub-Account and *third* from the Pledged City Note Revenues Sub-Account and *last* from the Board Contribution Sub-Account to: (i) the Interest Sub-Account, the amount required for the interest payable on the next June 1 and December 1 less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) the Principal Sub-Account, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on the next December 1, less the amount then on deposit in the Principal Sub-Account and available for such payment.

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

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

On each December 1 the Trustee shall determine the Payment Amount and the Available Funds as of such date and promptly notify the Board of the results of such determination. The Board may grant the City a credit against the amount due and payable on the City Note on such December 1 in an amount not to exceed the excess, if any, of (a) the sum of (i) the amount payable on the City Note on such December 1 and (ii) the amount of Available Funds, over (b) the Payment Amount. The Board will promptly notify the Trustee of the amount, if any, of any such excess to be applied as a credit against the amount payable on the City Note on such December 1.

On December 1 of each year while any Bonds are Outstanding the Trustee shall submit to the City a statement setting forth the amount due and payable on the City Note on such December 1 after taking into account any credits against such payments described in the preceding paragraph.

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

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

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

INVESTMENT OF FUNDS

INVESTMENT OF CERTAIN MONEYS

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and in the Project Fund will be invested and reinvested by the Trustee at the direction of a Designated Official in Investment Securities within the parameters established in the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. Any transfers of funds between any Fund, Account, or Sub-Account required or permitted by the Indenture may be made by transferring all or a portion of an Investment Security. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

VALUATION AND SALE OF INVESTMENTS

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

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

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

PARTICULAR COVENANTS AND REPRESENTATIONS OF THE BOARD

COVENANTS REGARDING PLEDGED CITY NOTE REVENUES, THE CITY NOTE AND THE INTERGOVERNMENTAL AGREEMENT

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged City Note Revenues, together with investment earnings thereon, to the payment of the Bonds and the provision of not less than an additional .25 times annual Debt Service. The Board and its officers will comply with all present and future applicable laws, including the provisions of the City Note and the Intergovernmental Agreement, in order to assure that the Pledged City Note Revenues may be allocated and paid to the Board for application as provided in the Indenture.

The Board covenants under the Indenture, so long as there are any Outstanding Bonds or the total amount of remaining unpaid Debt Service on the Bonds is less than the Available Funds, not to amend the Intergovernmental Agreement nor to consent to the amendment of the City Note in any manner that would reduce the amount of Pledged City Note Revenues or change the timing for the payment thereof that would result in the Pledged City Note Revenues received and to be received by the Board being less than an amount, together with estimated investment earnings thereon, providing for the payment of the principal of and interest on the Outstanding Bonds when due and providing for not less than an additional .25 times annual Debt Service in each Bond Year.

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

COVENANTS REGARDING PLEDGED TAXES

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

As described in the Official Statement under the heading "Security For The Bonds -- Pledged Taxes," the Board will direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

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

INDEBTEDNESS AND LIENS

The Board will not issue any bonds or other evidences of indebtedness, other than the Bonds and Additional Bonds, which are secured by a pledge of or lien on the Pledged City Note Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture, and will not, except as provided in the Indenture, create or cause to be created any lien or charge on the Pledged City Note Revenues, the Pledged Taxes or such moneys, securities or funds, provided, however, the Board reserves the right to issue bonds or other evidences of indebtedness payable from Pledged City Note Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Pledged City Note Revenues available to the Board in each year in excess of those required to be deposited in the Pledged City Note Revenues Account under the Indenture during such year.

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 City Note Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, will at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

ARBITRAGE

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

EVENTS OF DEFAULT AND REMEDIES

EVENTS OF DEFAULT

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

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

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

(3) if a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds; or

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

PROCEEDINGS BROUGHT BY TRUSTEE

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

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

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

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

APPLICATION OF TRUST ESTATE AND OTHER MONEYS ON DEFAULT

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

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

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

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

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

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made 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 aggregate principal amount of the Bonds then Outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State or to institute such suit or proceeding in its own name, and unless such Owners will have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

NO REMEDY EXCLUSIVE

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

WAIVER

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

PROVISIONS RELATING TO TRUSTEE

RESIGNATION AND REMOVAL OF TRUSTEE

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

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

APPOINTMENT OF SUCCESSOR TRUSTEE

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

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

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

SUPPLEMENTAL INDENTURES

SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF OWNERS

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

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

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

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

(4) to confirm, as further assurance, any pledge of or lien upon the Pledged City Note Revenues, the Pledged Taxes or any other moneys, securities or funds;

(5) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds, including, without limitation, any amendments thereto necessary or desirable to reflect the issuance of such Additional Bonds in any calculations or determinations required or permitted by the Indenture;

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

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

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

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

SUPPLEMENTAL INDENTURES EFFECTIVE UPON CONSENT OF OWNERS

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

AMENDMENTS

GENERAL

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

CONSENT OF OWNERS

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

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

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

RIGHTS OF BOND INSURER

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

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

DEFEASANCE

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

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

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

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

APPENDIX C

Form of Opinions of Co-Bond Counsel

[Date of Issuance of the Bonds]

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

Cole Taylor Bank, as trustee
111 West Washington Street
Chicago, Illinois 60602

George K. Baum & Company
as Representative of the Underwriters
named in the Contract of Purchase,
dated September 12, 2002
11 South LaSalle Street
Chicago, Illinois 60603

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2002A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the *"Board"*) of its $48,970,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2002A (the *"Bonds"*). As Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Bonds are being issued pursuant to a Trust Indenture dated as of September 1, 2002 (the *"Indenture"*), between the Board and Cole Taylor Bank, as trustee (the *"Trustee"*). The Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, Resolutions adopted by the Board on July 24, 2002 and August 28, 2002 (collectively, the *"Bond Resolution"*) and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

The Bonds are issued for the purpose of (i) constructing, acquiring and equipping school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the *"School District"*) and (ii) paying costs related to the issuance of the Bonds.

The Bonds are dated the date of issuance thereof and are due (subject to optional redemption as provided in the Indenture) on December 1 of the years and in the amounts and bearing interest at the rates per annum as follows:

MATURITY DATE (DECEMBER 1)	PRINCIPAL AMOUNT	INTEREST RATE
2005	$ 580,000	3.00%
2006	600,000	3.00
2007	615,000	3.00
2008	1,135,000	3.25
2009	1,675,000	3.50
2010	425,000	3.75
2010	1,400,000	5.00
2011	2,315,000	3.75
2012	2,405,000	4.00
2013	3,000,000	5.00
2014	3,150,000	5.00
2015	3,310,000	5.00
2016	3,475,000	5.00
2017	3,645,000	5.00
2018	3,830,000	5.25
2019	4,025,000	5.25
2020	4,240,000	5.25
2021	4,460,000	5.00
2022	4,685,000	5.00

In our capacity as Bond Counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings of the Board adopting the Bond Resolution and authorizing, among other things, the execution and delivery of the Indenture and the issuance of the Bonds;

(b) a certified copy of the Bond Resolution;

(c) an executed counterpart of the Indenture; and

(d) such other certifications, documents, showings and related matters of law as we have deemed necessary in order to render this opinion.

Based upon the foregoing we are of the opinion that:

1. The Board has full power and authority and has taken all necessary corporate action to authorize the execution and delivery of the Indenture.

2. The Indenture has been duly and lawfully executed and delivered by the Board and, assuming the due authorization, execution and delivery by, and the binding effect on, the Trustee, the Indenture is valid and binding upon the Board and enforceable in accordance with its terms.

3. The Indenture creates the valid pledge which it purports to create of the Trust Estate held or set aside or pledged under the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture.

4. The Bonds have been duly and validly authorized and issued in accordance with law and the Indenture and the Bonds, to the amount named, are valid and legally binding general

obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture.

5. The form of Bond prescribed for said issue is in due form of law.

6. The Bonds are payable ratably and equally (i) together with any bonds issued on a parity therewith under the terms of the Indenture from the *"Pledged City Note Revenues"*, being payments of the principal of and interest on the Tax Increment Allocation Revenue Note (24^{th}/Michigan Redevelopment Project), Series 2002A (the "City Note"), of the City of Chicago, Illinois (the "City"), issued by the City to the Board and (ii) from the *"Pledged Taxes"*, being ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

7. The Board has taken all necessary action to cause the County Collectors of The Counties of Cook and DuPage, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

8. Subject to the condition that the Board complies with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the *"Code"*), under present law, the Bonds are not "private activity bonds" under the Code, and interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of these covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds.

The rights of the registered owners of the Bonds and the enforceability of provisions of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds and the Indenture by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

Respectfully submitted,

APPENDIX D

Specimen Municipal Bond Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

STD-R-6
4/95

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BUILDING CHICAGO TOGETHER

RICHARD M. DALEY, MAYOR

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