

The portion of the Base Rentals which is designated in the Lease and paid by the District as interest on the Certificates is includable in gross income under federal and Colorado income tax laws. See "TAX MATTERS."

\$384,167,520.55

**SCHOOL DISTRICT NO. 1, IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO
 LEASE PURCHASE AGREEMENT WITH DENVER SCHOOL FACILITIES LEASING CORPORATION
 TAXABLE PENSION CERTIFICATES OF PARTICIPATION, SERIES 1997**

Dated: July 1, 1997 (Current Interest Certificates)

Date of Delivery (Capital Appreciation Certificates)

Due: December 15, as shown below

**MATURITY SCHEDULE
 \$270,135,000 Serial Current Interest Certificates**

| Maturity (December 15) | Principal Amount | Interest Rate | Price | Maturity (December 15) | Principal Amount | Interest Rate | Price |
|---------------------------|---------------------|------------------|-------|---------------------------|---------------------|------------------|-------|
| 1997 | \$ 2,200,000 | 5.560% | 100% | 2005 | \$18,100,000 | 6.700% | 100% |
| 1998 | 2,275,000 | 5.980 | 100 | 2006 | 21,470,000 | 6.730 | 100 |
| 1999 | 3,865,000 | 6.200 | 100 | 2007 | 25,200,000 | 6.760 | 100 |
| 2000 | 5,645,000 | 6.340 | 100 | 2008 | 29,320,000 | 6.790 | 100 |
| 2001 | 7,630,000 | 6.440 | 100 | 2009 | 33,870,000 | 6.820 | 100 |
| 2002 | 9,895,000 | 6.490 | 100 | 2010 | 24,735,000 | 6.860 | 100 |
| 2003 | 12,310,000 | 6.600 | 100 | 2011 | 27,290,000 | 6.900 | 100 |
| 2004 | 15,055,000 | 6.670 | 100 | 2012 | 31,275,000 | 6.940 | 100 |

\$42,782,520.55 Serial Capital Appreciation Certificates

| Maturity (December 15) | Original Principal Amount | Appreciated Value at Maturity | Initial Amount Per \$5,000 Appreciated Value at Maturity | Approximate Yield to Maturity |
|---------------------------|------------------------------|----------------------------------|---|----------------------------------|
| 2013 | \$10,680,200.60 | \$34,315,000 | \$1,556.20 | 7.240% |
| 2014 | 10,540,308.90 | 36,545,000 | 1,442.10 | 7.270 |
| 2015 | 10,408,769.80 | 38,830,000 | 1,340.30 | 7.280 |
| 2016 | 10,235,771.65 | 41,245,000 | 1,240.85 | 7.310 |
| 2017 | 917,469.60 | 3,980,000 | 1,152.60 | 7.320 |

\$71,250,000 7.250% Term Current Interest Certificates due December 15, 2018 — Price 98.338%

The Certificates will be executed and delivered pursuant to a Mortgage and Indenture of Trust (the "Indenture") dated as of July 1, 1997 by and between the Denver School Facilities Leasing Corporation (the "Lessor") and Bank One, Colorado, N.A., as trustee (the "Trustee"). The Current Interest Certificates will be issued in denominations of \$5,000 or any integral multiple thereof, and the Capital Appreciation Certificates will be issued in denominations of \$5,000 Appreciated Value at maturity or any integral multiple thereof, bearing interest from the date of their delivery compounded on each interest payment date and payable only at maturity. Interest represented by the Current Interest Certificates is payable on December 15, 1997 and on each June 15 and December 15 thereafter, to and including the respective maturity dates or the date of prepayment thereof. See "THE CERTIFICATES." The Certificates, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Certificates. Individual purchases will be made in book-entry form only and purchasers will not receive certificates representing their interest in the Certificates purchased. The principal, interest and Appreciated Value components represented by the Certificates are payable by the Trustee to DTC, which will in turn be responsible to remit such principal, interest and Appreciated Value to its Participants, which will in turn be responsible to remit such principal, interest and Appreciated Value to the Beneficial Owners of the Certificates as described herein. See "THE CERTIFICATES — Book-Entry Registration."

The Certificates evidence assignments of proportionate undivided interests in certain payments pursuant to an annually terminable Lease Purchase Agreement, dated as of July 1, 1997 (the "Lease"), entered into between the Lessor and School District No. 1, in the City and County of Denver and State of Colorado (the "District"). The District's obligation to make payments under the Lease are from year to year only and do not constitute a mandatory charge or requirement in any ensuing fiscal year beyond the then current fiscal year.

The Certificates are subject to redemption prior to maturity as more fully described herein. See "THE CERTIFICATES - Redemption Provisions."

The net proceeds from the issuance of the Certificates will be applied to the payment of all of the currently estimated amount of the District's unfunded actuarial accrued liability with respect to its pension plan, all as more fully described herein. See "PURPOSE OF THE CERTIFICATES" and "ESTIMATED USE OF PROCEEDS."

THE LEASE, THE CERTIFICATES AND THE INTEREST THEREON DO NOT CONSTITUTE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION AND SHALL NOT CONSTITUTE A MULTIPLE FISCAL YEAR DIRECT OR INDIRECT DISTRICT DEBT OR OTHER FINANCIAL OBLIGATION WHATSOEVER. THE LEASE, THE INDENTURE AND THE CERTIFICATES DO NOT DIRECTLY OR INDIRECTLY OBLIGATE THE DISTRICT TO MAKE ANY PAYMENTS BEYOND THOSE BUDGETED AND APPROPRIATED FOR THE DISTRICT'S THEN CURRENT FISCAL YEAR, EXCEPT TO THE EXTENT PAYABLE FROM THE PROCEEDS OF THE SALE OF THE CERTIFICATES, CERTAIN INVESTMENT INCOME, NET PROCEEDS OF CERTAIN INSURANCE POLICIES AND CONDEMNATION AWARDS, OR NET PROCEEDS OF FORECLOSURE THROUGH THE COURTS ON A SALE, OTHER LIQUIDATION OR DISPOSITION OF THE LEASED PROPERTY. THE CERTIFICATES WILL BE PAYABLE SOLELY FROM BASE RENTALS AND THE PURCHASE OPTION PRICE, IF ANY, TO BE PAID BY THE DISTRICT UNDER THE LEASE AND BY PAYMENTS BY THE CERTIFICATE INSURER UNDER AND IN ACCORDANCE WITH THE POLICY. THE LESSOR DOES NOT HAVE ANY OBLIGATION TO, AND WILL NOT MAKE ANY PAYMENTS ON THE CERTIFICATES.

Payments of the scheduled principal, interest and Appreciated Value, as the case may be, represented by the Certificates when due will be insured by an insurance policy to be issued simultaneously with the delivery of the Certificates by AMBAC Indemnity Corporation.



The offering of the Certificates to potential investors is made subject to this entire Official Statement. Each prospective investor should read this entire Official Statement and should give particular attention to the caption "RISK FACTORS" herein.

The Certificates are offered when, as and if issued and accepted by the Underwriters, subject to prior sale, modification or withdrawal of the offer without notice, and subject to the approval of validity and certain other matters by Sherman & Howard L.L.C., as Special Counsel. Certain legal matters will be passed upon for the District and the Lessor by its counsel.

Michael H. Jackson, Esq., and for the Underwriters by their co-counsel, Brownstein Hyatt Farber & Strickland, P.C. and Tate & Tate, P.C. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York on or about July 17, 1997 against payment therefor.

PaineWebber Incorporated

Estrada Hinojosa & Company, Inc.

Kirkpatrick Pettis

Merrill Lynch & Co.

A.G. Edwards & Sons, Inc.

M.R. Beal & Company

Smith Barney Inc.

This Official Statement is dated July 9, 1997

**SCHOOL DISTRICT NO. 1
CITY AND COUNTY OF DENVER, AND STATE OF COLORADO**

BOARD OF DIRECTORS

| | |
|--------------------|----------------|
| Susan Edwards | President |
| Lynn Coleman | Vice President |
| Laura Lefkowits | Secretary |
| J.P. Hemming | Treasurer |
| Rita Montero | Member |
| Lee White | Member |
| Bennie L. Milliner | Member |

ADMINISTRATIVE OFFICIALS

| | |
|---------------------------|------------------|
| Superintendent | Irv Moskowitz |
| Assistant Superintendents | Bernadette Seick |
| | Twila Norman |
| | Sharon Johnson |
| Chief Operating Officer | Wayne Eckerling |
| Chief Financial Officer | Craig A. Cook |
| | Velma A. Rose |

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(a)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THESE SECURITIES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES, NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SECURITIES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NO DEALER, SALESMAN, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS OFFICIAL STATEMENT, IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT, THE LESSOR OR THE UNDERWRITERS. THE INFORMATION IN THIS OFFICIAL STATEMENT IS SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER WILL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT OR THE UNDERWRITERS SINCE THE DATE HEREOF. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH ANY PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE DISTRICT, THE LESSOR AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY, THE UNDERWRITERS.

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OFFICIAL STATEMENT

Relating to

\$384,167,520.55

**SCHOOL DISTRICT NO. 1, IN THE
CITY AND COUNTY OF DENVER AND STATE OF COLORADO
LEASE PURCHASE AGREEMENT
WITH DENVER SCHOOL FACILITIES LEASING CORPORATION**

**TAXABLE PENSION CERTIFICATES OF PARTICIPATION
SERIES 1997**

INTRODUCTION

This Official Statement, which includes the cover page and any Appendices attached hereto, is furnished in connection with the offering and sale of \$384,167,520.55 aggregate principal amount of Taxable Pension Certificates of Participation, Series 1997 (the "Certificates") evidencing assignments of proportionate undivided interests in rights to receive certain payments under a Lease Purchase Agreement, dated as of July 1, 1997 (the "Lease") between School District No. 1, in the City and County of Denver and State of Colorado, as lessee (the "District"), and Denver School Facilities Leasing Corporation, a Colorado nonprofit corporation, as lessor (the "Lessor"). The Certificates are being executed and delivered pursuant to a Mortgage and Indenture of Trust, dated as of July 1, 1997 (the "Indenture") between the Lessor and Bank One, Colorado, N.A., as trustee (the "Trustee"). The \$341,385,000 aggregate principal amount of the District's Taxable Pension Certificates of Participation Series 1997 bearing current interest (the "Current Interest Certificates"), mature in the amounts and at the times and bear interest at the rates set forth on the cover page hereof. The \$42,782,520.55 aggregate original principal amount of the District's Taxable Pension Certificates of Participation Series 1997 (the "Capital Appreciation Certificates") do not bear current interest and are payable in the amounts and at the times set forth on the cover page hereof. See "THE CERTIFICATES."

The Certificates are being issued for the purposes of (i) providing for the payment of all of the District's currently estimated amount of its unfunded actuarial accrued liability to its pension plan, (ii) purchasing a surety bond the ("Surety Bond") from AMBAC Indemnity Corporation (the "Certificate Insurer") in an amount equal to the initial Reserve Fund Requirement of \$11,596,792.75 for the Reserve Fund for the Certificates, as further described herein, and (iii) paying certain costs and expenses related to the issuance of the Certificates, including a premium for the Policy of Insurance (defined below) issued by the Certificate Insurer. See "PURPOSE OF THE CERTIFICATES" and "ESTIMATED USE OF PROCEEDS" herein.

Neither the Certificates nor the Lease constitutes a mandatory payment obligation in any fiscal year beyond a fiscal year for which the District has appropriated amounts to make payments under the Lease. The District may terminate its obligations under the Lease on an annual basis.

The exercise by the District of its option to terminate its obligations under the Lease (an "Event of Nonappropriation") is determined by the failure of the Board of Education of the District (the "Board") to specifically appropriate moneys sufficient to pay all Base Rentals and reasonably estimated Additional Rentals for the next ensuing fiscal year. As more fully set forth in APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE," the term "Base Rentals" means the amount payable by the District under the Lease for payment of the Certificates, including components designated as principal and interest, and the term "Additional Rentals" means certain deposits into the Reserve Fund or repayment to the Certificate Insurer for payments made under the Surety Bond, as described herein, and the costs of maintenance and repair, taxes, insurance, utilities, fees and expenses of the Trustee and other costs payable by the District with respect to the Project pursuant to the Lease.

The District will have the option to purchase the Leased Property (as described in APPENDIX D) by paying an amount sufficient to effect a defeasance of the Certificates then outstanding, together with all fees and expenses due to the Trustee. The District may also release all or any portion of the Leased Property from the Lease and the Indenture and substitute other property for the Leased Property released upon the satisfaction of certain conditions relating to such release and substitution as Leased Property set forth in the Lease. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE."

Pursuant to the Indenture, the Lessor has granted a mortgage on the Leased Property to the Trustee for the benefit of the Owners of the Certificates. See APPENDIX D hereto for a description of the Leased Property. See also "RISK FACTORS--Foreclosure Delays" for a discussion of some of the inherent difficulties in foreclosing the mortgage on the Leased Property.

The Lessor does not have any obligation to, and will not, make any payment on the Certificates or pursuant to the Lease. The Lease requires the District to pay all taxes, insurance premiums, utility charges and the Lessor's reasonable expenses and fees associated with the Leased Property. There is no act or performance required by the Lessor, the failure of which will excuse the District from its obligations under the Lease, including, but not limited to, its obligations to pay the Base Rentals and Additional Rentals.

Concurrently with the issuance of the Certificates, the Certificate Insurer will issue its municipal bond insurance policy (the "Policy of Insurance") and the Surety Bond. A specimen of the form of the Policy of Insurance is set forth as APPENDIX E to this Official Statement.

Pursuant to the requirements of Section (b)(5)(i) of the Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12), the District has covenanted in a Continuing Disclosure Agreement for the benefit of the Owners of the Certificates to provide certain financial information and other operating data (the "Undertaking") to nationally recognized municipal securities information repositories. For a description of the District's Undertaking, see APPENDIX B hereto.

This Official Statement includes financial and other information about the District and also contains descriptions of the Certificates, the Lease and the Indenture. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE," for the definitions of some of the terms used in the Lease, the Certificates, the Indenture and this Official Statement. The descriptions of the Certificates, the Lease, the Indenture and other documents described in this Official Statement (including APPENDIX C hereto) do not purport to be definitive or comprehensive, and all references to those documents are qualified in their entireties by reference to the approved forms of those documents, which documents are available at the principal offices of the District located at 900 Grant Street, Denver, Colorado 80203. During the period of the offering of the Certificates, copies of such documents will also be available for inspection at the principal offices of PaineWebber Incorporated, 1285 Avenue of the Americas, New York, NY 10019.

This Official Statement includes certain information which was not available for inclusion in the Preliminary Official Statement dated June 25, 1997, and which has been included in order to make this Official Statement complete as of its date. Purchasers of the Certificates should read this Official Statement in its entirety.

THE CERTIFICATES

General

The Current Interest Certificates will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (provided that no such Certificate may be in a denomination which exceeds the principal coming due on any maturity date and no individual Certificate will be issued for more than one maturity). The Capital Appreciation Certificates will be issued in fully registered form in the denomination of \$5,000 value at maturity or any integral multiple thereof (provided that no such Certificate may be in a denomination which exceeds the appreciated principal amount coming due on any maturity date and no individual Certificate may be issued for more than one maturity).

All references herein to principal of Certificates, when applied to Capital Appreciation Certificates, means the original principal amount thereof. All references herein to principal of and accrued interest on Certificates, or words of similar import, when applied to Capital Appreciation Certificates, means the Appreciated Value of the Capital Appreciation Certificates as of the relevant date. The tables set forth in Appendix F to this Official Statement show the Appreciated Value of the Capital Appreciation Certificates of each maturity, for each unit of Authorized Denomination (or for each \$5,000 Maturity Amount), on certain dates. OWNERS OF CAPITAL APPRECIATION CERTIFICATES SHOULD NOT SELL OR OTHERWISE DISPOSE OF SUCH CAPITAL APPRECIATION CERTIFICATES WITHOUT TAKING APPROPRIATE STEPS TO DETERMINE THE THEN CURRENT APPRECIATED VALUE OF SUCH CAPITAL APPRECIATION CERTIFICATES.

The principal or Appreciated Value, as the case may be, of and premium, if any, on any Certificate shall be payable to the registered Owner thereof as shown on the registration books of the District kept by the Trustee, upon presentation and surrender at the principal operations office of the Trustee, currently located in Westerville, Ohio. Payment of interest on any Current Interest Certificate shall be made to the registered Owner thereof by check or draft mailed by the Trustee, on or before each interest payment date (or, if such interest payment date is not a Business Day, on or before the next succeeding Business Day), to the registered Owner thereof at his or her address as shown on the registration books of the District kept by the Trustee at the close of business on the last Business Day of the month preceding the month in which an interest payment date occurs (the "Regular Record Date"); but any such interest not so timely paid or duly provided for shall cease to be payable to the person who is the registered Owner thereof at the close of business on the Regular Record Date and shall be payable to the person who is the registered Owner thereof at the close of business on a Special Record Date for the payment of any such defaulted interest. Such Special Record Date shall be fixed by the Trustee whenever moneys become available for payment of the defaulted interest, and notice of the Special Record Date shall be given to the registered Owners of the Current Interest Certificates not less than ten days prior thereto by first-class mail to each such registered Owner as shown on the registration books on a date selected by the Trustee, stating the date of the Special Record Date and the date fixed for the payment of such defaulted interest. The Trustee may make payments of interest on any Current Interest Certificate by such alternative means as may be mutually agreed to between the registered Owner of such Certificate and the Trustee. All such payments will be made in lawful money of the United States of America without deduction for the services of the Trustee.

Interest is payable on each Current Interest Certificate on June 15 and December 15, commencing December 15, 1997. Interest on the Capital Appreciation Certificates will be compounded semiannually on each June 15 and December 15, commencing on December 15, 1997 and will be payable only at maturity or upon prior redemption.

Redemption Provisions

Optional Redemption - Current Interest Certificates maturing on and prior to December 15, 2012 and the Capital Appreciation Certificates are not subject to optional redemption prior to their maturity date. Current Interest Certificates maturing on December 15, 2018 are subject to redemption prior to such maturity date at the option of the District, in whole or in part, in any order determined by the District and by lot within a maturity, at any time on and after December 15, 2007, at the following redemption prices expressed as percentages of the principal amount to be redeemed, plus interest accrued thereon to the date of redemption:

| <u>Redemption Date</u> | <u>Percent of Par</u> |
|---|-----------------------|
| December 15, 2007 through December 14, 2008 | 102% |
| December 15, 2008 through December 14, 2009 | 101% |
| December 15, 2009 and thereafter | 100% |

A portion of a Certificate may be redeemed, in which case the Trustee shall, without charge to the owner of such Certificate, execute and deliver a replacement Certificate or Certificates of the same maturity and of Authorized Denominations in an aggregate principal amount or Appreciated Value, as the case may be, equal to the unredeemed portion thereof.

When Certificates are to be redeemed in part, the schedule of Base Rentals set forth in Exhibit B to the Lease shall be recalculated by the Trustee to reflect the effect of such partial redemption.

Mandatory Sinking Fund Redemption - The Current Interest Certificates maturing on December 15, 2018 are subject to mandatory sinking fund redemption in part by lot pursuant to the provisions of the Indenture, at 100% of the principal amount thereof, plus accrued interest to the redemption date, from mandatory sinking fund payments which are required to be made as set forth below:

| <u>Redemption Date</u> | <u>Amount</u> |
|------------------------|---------------|
| December 15, 2017 | \$41,390,000 |
| December 15, 2018* | 29,860,000 |

* Final payment date not a sinking fund payment.

The amount of any such Current Interest Certificates redeemed prior to maturity other than through the operation of the sinking fund redemption shall be credited against such mandatory sinking fund payments, as set forth above, as the District shall direct.

Redemption Subsequent to a Termination of the Lease Term - Subject to the next paragraph, the Certificates shall be called for redemption in the event that the Lease Term is terminated by reason of the occurrence of an Event of Nonappropriation or an Event of Default under the Lease. If so called for redemption, the Certificates shall be redeemed in whole on such date or dates as the Trustee may determine to be in the best interests of the Certificate Owners for a redemption price equal to the principal amount thereof plus accrued interest, or Appreciated Values, as the case may be, to the redemption date (subject to the availability of funds therefor).

Notwithstanding the above, so long as the Certificate Insurer is not in default with respect to its payment obligation under the Policy of Insurance, the Trustee shall not apply any Net Proceeds or other moneys available for redemption of Certificates to the redemption of any Certificates prior to their maturity pursuant to the above, but rather the Trustee shall apply such moneys (net of fees and expenses of the Trustee) to the payment of principal of and interest on the Current Interest Certificates on the normal maturity and interest payment dates, and to the payment of the Appreciated Value of the Capital Appreciation Certificates on the normal maturity dates.

If the Certificates are to be redeemed by reason of any such event, the Certificate Owners shall have no right to payment from the District, the Lessor or the Trustee in redemption of their Certificates or otherwise, except as provided below.

Upon the termination of the Lease Term by reason of the occurrence of an Event of Nonappropriation or an Event of Default (if net Proceeds otherwise received and other moneys available under the Indenture are insufficient to provide for the payment in full of all outstanding Certificates and interest thereon), the Trustee may, with the Certificate Insurer's consent or at the request of the owners of a majority in aggregate principal amount of the Certificates then outstanding and with the Certificate Insurer's consent, or shall, at the Certificate Insurer's direction, commence proceedings for the foreclosure through the courts on and sale, or other liquidation or disposition of, the Leased Property. The Certificates then outstanding shall be redeemed by the Trustee from any Net Proceeds of such foreclosure through the courts on and sale, or other liquidation or disposition of, the Leased Property and all other moneys in the Extraordinary Revenue Fund.

In the event that such Net Proceeds of foreclosure through the courts on a sale, or other liquidation or disposition, and other moneys shall be insufficient to redeem the Certificates at 100% of the principal amount thereof outstanding plus accrued interest to the redemption date, then such Net Proceeds of foreclosure through the courts on a sale, or other liquidation or disposition, and other moneys shall be allocated proportionately among the Certificates, according to the principal amount thereof outstanding, and payments from the Certificate Insurer of the remaining principal and interest on the Certificates will be made on the regularly scheduled maturity and interest payments date; provided, however, that if the Certificates are so called for redemption, the Certificate Insurer may, at any time and at its sole option, pay to the owners of the Certificates all or any portion of the redemption price of the Certificates prior to the stated maturity dates thereof. In the event that such Net Proceeds of foreclosure through the courts on and sale, or other liquidation or disposition, and other moneys are in excess of the amount required to redeem the Certificates then outstanding at 100% of the principal amount thereof outstanding plus accrued interest to the redemption date, then such excess moneys shall be paid to the District.

Prior to any distribution of the Net Proceeds of such foreclosure through the courts on a sale, or other liquidation or disposition, or other moneys in redemption of the Certificates pursuant to the foregoing, the Trustee shall be entitled to payment of its reasonable and customary fees for all services rendered in connection with such foreclosure through the courts on and sale, or other liquidation or disposition, as well as reimbursement for all reasonable costs and expenses incurred thereby, from proceeds of such foreclosure through the courts on a sale, or other liquidation or disposition of the Leased Property. If the Certificates are to be redeemed for an amount less than the aggregate principal amount thereof outstanding plus accrued interest to the redemption date, such payment shall be deemed to constitute a redemption in full of the Certificates, and upon such payment no Certificate Owner shall have any further claim for payment against the District, the Lessor or the Trustee. Nothing in the Indenture shall prevent the Trustee from applying any moneys available therefor under the Indenture to partial payments in redemption of Certificates,

ratably according to the amounts of principal outstanding, on more than one date, if the Trustee shall deem such application of moneys to be in the best interests of the Certificate Owners.

A PARTICIPANT SHOULD NOT ANTICIPATE THAT IT WILL BE POSSIBLE TO FORECLOSE ON AND SELL THE LEASED PROPERTY FOR AN AMOUNT EQUAL TO THE AGGREGATE PRINCIPAL AMOUNT OF THE CURRENT INTEREST CERTIFICATES THEN OUTSTANDING PLUS ACCRUED INTEREST THEREON, OR IN THE CASE OF CAPITAL APPRECIATION CERTIFICATES, THE APPRECIATED VALUE. IF THE CERTIFICATES ARE REDEEMED SUBSEQUENT TO THE OCCURRENCE OF A TERMINATION OF THE LEASE TERM FOR AN AMOUNT LESS THAN THE AGGREGATE PRINCIPAL AMOUNT THEREOF PLUS ACCRUED INTEREST, OR IN THE CASE OF CAPITAL APPRECIATION CERTIFICATES, THE APPRECIATED VALUE TO THE REDEMPTION DATE, NO REGISTERED OWNER OF ANY CERTIFICATE SHALL HAVE ANY FURTHER CLAIM FOR PAYMENT AGAINST THE DISTRICT, THE LESSOR OR THE TRUSTEE. IN SUCH AN EVENT THE REGISTERED OWNERS OF THE CERTIFICATES MAY PURSUE ANY AVAILABLE REMEDIES AGAINST THE CERTIFICATE INSURER.

Notice of Redemption

Notice of the call for any redemption, identifying the Certificates or portions of Certificates to be redeemed, and specifying the terms of such redemption, will be given by the Trustee, upon being satisfactorily indemnified as to expenses, by mailing a copy of the redemption notice by first class mail at least 30 days and not more than 60 days prior to the redemption date to the registered owner of each Certificate or portion of a Certificate to be redeemed at the address shown on the registration books, provided that failure to give notice by mailing, or any defect therein, will not affect the validity of any redemption proceeding as to which no such failure has occurred. Any notice mailed as provided above shall be conclusively presumed to have been duly given, whether or not the registered owner receives the notice.

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Base Rentals

Set forth below is a schedule of the Base Rentals under the Lease, including the principal and interest components thereof, rounded to the nearest dollar.

| <u>Payment Date</u> | <u>Principal</u> ^{**} | <u>Interest</u> ^{***} | <u>Fiscal Year Total</u> ^{**} |
|--------------------------------|--------------------------------|--------------------------------|--|
| December 1, 1997 | \$2,200,000 | \$10,652,678 | |
| June 1, 1998 | | 11,630,804 | \$24,483,482 |
| December 1, 1998 | 2,275,000 | 11,630,804 | |
| June 1, 1999 | | 11,562,782 | 25,468,586 |
| December 1, 1999 | 3,865,000 | 11,562,782 | |
| June 1, 2000 | | 11,442,967 | 26,870,748 |
| December 1, 2000 | 5,645,000 | 11,442,967 | |
| June 1, 2001 | | 11,264,020 | 28,351,987 |
| December 1, 2001 | 7,630,000 | 11,264,020 | |
| June 1, 2002 | | 11,018,334 | 29,912,354 |
| December 1, 2002 | 9,895,000 | 11,018,334 | |
| June 1, 2003 | | 10,697,241 | 31,610,575 |
| December 1, 2003 | 12,310,000 | 10,697,241 | |
| June 1, 2004 | | 10,291,011 | 33,298,253 |
| December 1, 2004 | 15,055,000 | 10,291,011 | |
| June 1, 2005 | | 9,788,927 | 35,134,938 |
| December 1, 2005 | 18,100,000 | 9,788,927 | |
| June 1, 2006 | | 9,182,577 | 37,071,504 |
| December 1, 2006 | 21,470,000 | 9,182,577 | |
| June 1, 2007 | | 8,460,112 | 39,112,689 |
| December 1, 2007 | 25,200,000 | 8,460,112 | |
| June 1, 2008 | | 7,608,352 | 41,268,463 |
| December 1, 2008 | 29,320,000 | 7,608,352 | |
| June 1, 2009 | | 6,612,938 | 43,541,289 |
| December 1, 2009 | 33,870,000 | 6,612,938 | |
| June 1, 2010 | | 5,457,971 | 45,940,908 |
| December 1, 2010 | 24,735,000 | 5,457,971 | |
| June 1, 2011 | | 4,609,560 | 34,802,531 |
| December 1, 2011 | 27,290,000 | 4,609,560 | |
| June 1, 2012 | | 3,668,055 | 35,567,615 |
| December 1, 2012 | 31,275,000 | 3,668,055 | |
| June 1, 2013 | | 2,582,813 | 37,525,868 |
| December 1, 2013 ^{**} | 10,680,201 | 26,217,612 | |
| June 1, 2014 | | 2,582,813 | 39,480,625 |
| December 1, 2014 ^{**} | 10,540,309 | 28,587,504 | |
| June 1, 2015 | | 2,582,813 | 41,710,625 |
| December 1, 2015 ^{**} | 10,408,770 | 31,004,043 | |
| June 1, 2016 | | 2,582,813 | 43,995,625 |
| December 1, 2016 ^{**} | 10,235,772 | 33,592,041 | |
| June 1, 2017 | | 2,582,813 | 46,410,625 |
| December 1, 2017 ^{**} | 42,307,470 | 5,645,343 | |
| June 1, 2018 | | 1,082,425 | 49,035,238 |
| December 1, 2018 | 29,860,000 | 1,082,425 | |
| June 1, 2019 | <u> </u> | <u> </u> | <u>30,942,425</u> |
| TOTAL | <u>\$384,167,521</u> | <u>\$417,369,430</u> | <u>\$801,536,950</u> |

^{*}Actual payment dates for the Certificates are June 15th and December 15th

^{**}Interest amounts shown include appreciated value at maturity for Capital Appreciation Certificates

^{***}Totals do not add due to rounding.

Book-Entry Registration

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system has been obtained from DTC, and neither the District, the Lessor nor the Underwriters takes any responsibility for the accuracy thereof.

DTC, New York, New York, is to act as securities depository for the Certificates. The Certificates are to be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond certificate is to be issued for each maturity of the Certificates, as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, or aggregate Appreciated Value, as the case may be, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping accounts 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.

Redemption notices shall be sent to Cede & Co. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Certificates. 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 the Certificates are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Certificates are to be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

References to Owners of Certificates

So long as DTC or its nominee is the registered owner of the Certificates, references herein to the registered Owners of the Certificates will mean Cede & Co. or other nominee of DTC, and will not mean the Beneficial Owners of the Certificates. All notices required to be given to the registered Owners, so long as DTC or its nominee is the registered Owner of the Certificates, will be sent to DTC. See the caption "THE CERTIFICATES-Book-EntryRegistration" herein. None of the District, the Lessor, the Trustee or the Underwriters is responsible for DTC or its Participants forwarding any such notices.

Registration and Transfer

While the Certificates remain in book entry only form, transfer of ownership by Beneficial Owners may be made as described under the caption "THE CERTIFICATES-Book-Entry Registration." In the event that DTC ceases to act as securities depository for the Certificates, transfers may be effected as described below.

The Certificates may be transferred or exchanged at the principal office of the Trustee in Denver, Colorado, for a like aggregate principal amount, or Appreciated Value, as the case may be, of Certificates of other Authorized Denominations of the same maturity and interest rate, upon payment by the transferee of a transfer fee, any tax or governmental charge required to be paid with respect to such transfer or exchange and any cost of printing bonds in connection therewith. Upon surrender for transfer of any Certificate, duly endorsed for transfer or accompanied by an assignment duly executed by the Owner or his or her attorney duly authorized in writing, the District will execute and the Trustee will authenticate and deliver in the name of the transferee a new Certificate.

PURPOSE OF THE CERTIFICATES

The District's full-time employees are members of the Denver Public School Employees' Pension and Benefit Association (the "Plan"), which provides defined retirement and limited disability benefits to participating employees. The Plan is a single-employer defined benefit pension plan . Participation in the Plan is mandatory for all full-time employees of the District and requires member contributions of 6% of gross salary if employed continuously prior to January 1, 1995, and 7% if employed or re-employed on or after January 1, 1995.

The District is obligated to make contributions each year into the Plan in such amounts actuarially determined by an independent actuary, as will be sufficient, after taking into account all employer and employee contributions to meet the normal cost of the Plan and to fully amortize the liability that has accrued under the Plan and which has not been paid through normal contributions (the "Unfunded Actuarial Accrued Liability"). For additional information concerning the Plan, see "FINANCIAL INFORMATION CONCERNING THE DISTRICT - Pension and Benefit Plan."

The District has determined to issue the Certificates and to apply a portion of the proceeds thereof to the discharge of all of the currently estimated amount of the Unfunded Actuarial Accrued Liability of the District to the Plan. The amount of such Unfunded Accrued Liability has been determined by the Plan's independent consulting actuary in conjunction with an independent review conducted on behalf of the District.

In addition, a portion of the Certificate proceeds will be used to (i) purchase the Surety Bond from the Certificate Insurer for the Reserve Fund in the amount of the initial Reserve Fund Requirement of 11,596,792.75, and (ii) to pay certain costs and expenses related to the issuance of the Certificates, including the premium for the Policy of Insurance.

ESTIMATED USE OF PROCEEDS

The following is an estimate of the sources and uses of funds in connection with the delivery of the Certificates.

Estimated Sources of Funds:

| | |
|-------------------------------|--------------------------------|
| Certificate Proceeds | \$384,167,520.55 |
| Original Issue Discount | (1,184,175.00) |
| Accrued Interest | <u>1,039,285.69</u> |
| TOTAL | <u>\$384,022,631.24</u> |

Estimated Uses of Funds:

| | |
|--------------------------|--------------------------------|
| Deposit to Plan | \$377,766,918.00 |
| Accrued Interest | 1,039,285.69 |
| Costs of Issuance* | <u>5,216,427.55</u> |
| TOTAL | <u>\$384,022,631.24</u> |

* Includes the cost of the Underwriters' discount, the Surety Bond premium the Policy of Insurance premium, trustee and legal fees and certain other fees, costs and expenses.

SECURITY FOR THE CERTIFICATES

General

Each Certificate evidences an assignment of an undivided proportionate interest in rights to receive Base Rentals paid by the District under the Lease and certain other moneys received pursuant to the Lease. The Lessor will assign its rights to receive Base Rentals and other moneys under the Lease to the Trustee for the benefit of the registered owners of the Certificates (the "Participants"). As more fully described under the caption "RISK FACTORS," the Lease is

subject to termination on an annual basis at the option of the District. The Lease Term and the schedule of payments of Base Rentals thereunder is designed to produce moneys sufficient to pay the Certificates and interest thereon when due (assuming the District does not terminate the Lease prior to the end of the Lease Term).

The District may elect to purchase the Leased Property by payment of the Purchase Option Price, which is required to be sufficient to effect a discharge of the Indenture with respect to all of the Certificates then outstanding, as described under the caption "THE CERTIFICATES--Redemption Provisions" and APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE LEASE AND THE INDENTURE--THE INDENTURE--Discharge of the Indenture." The District may also release any portion of the Leased Property from the Lease and the Indenture and substitute other property for the Leased Property released upon the satisfaction of certain conditions relating to such release and substitution as Leased Property set forth in the Lease. See APPENDIX C -- "DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE -- THE LEASE -- Release and Substitution of Leased Property." The Lease further provides that it is the intention of the Board that the year-to-year decision to terminate or not to terminate the Lease is to be made solely by the Board, and not by any other District official. Neither the payment of Base Rentals by the District under the Lease, nor any payments under the Certificates, constitutes a general obligation or multiple fiscal year, direct or indirect financial obligation or other indebtedness of the District, nor a mandatory payment obligation of the District in any year subsequent to a year in which the Lease may be in effect.

Upon a termination of the Lease Term by reason of an Event of Nonappropriation or an Event of Default under the Lease, the District is required to vacate the Leased Property (a) by the first day of the second month following the end of any fiscal year during which an Event of Nonappropriation occurs, in the case of an Event of Nonappropriation, or (b) within 120 days after notice from the Trustee, in the case of an Event of Default. The Lease is also subject to termination at the option of the District upon the occurrence of certain events involving damage, destruction or condemnation of the Leased Property. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Damage, Destruction and Condemnation." After a termination of the Lease, and if payments under the Policy of Insurance (as defined under the caption "SECURITY FOR THE CERTIFICATES--Certificate Insurance") are insufficient to pay the principal of and interest on the Certificates, the Trustee is to foreclose on and sell the Leased Property. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Events of Default and Remedies , " and "RISK FACTORS" herein. The Leased Property is required to be insured as described in APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Insurance to Be Maintained for the Leased Property" and insurance proceeds are required to be applied as provided in APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Damage, Destruction and Condemnation."

Pledge of Revenues and Trust Estate

The Certificates are executed and delivered under and secured by the Indenture. Under the Indenture, the Lessor grants, mortgages, pledges, assigns and sets over to the Trustee, in trust for the benefit of the Owners of the Certificates, (i) the real estate constituting a part of the Leased Property, (ii) all right, title and interest of the Lessor in the Lease, except for its right to receive payment or reimbursement of certain expenses and indemnification, (iii) all Revenues received by the Lessor pursuant to the Lease, including, (a) all Base Rentals, (b) all Net Proceeds, and (c) all rights to enforce payments under the Lease when due or to otherwise enforce rights under the Lease for the benefit of Certificate Owners, and (iv) all moneys and securities held in any fund or account established under the Indenture. Except as described above, none of the proceeds of the Certificates are pledged as security for the Certificates.

The Lease provides that, if such amounts are appropriated by the District, the District is required to make Base Rental payments to the Trustee in amounts sufficient to pay all obligations to the Owners of the Certificates when due. Pursuant to the Indenture, such payments made by the District to the Trustee are to be deposited into the Certificate Fund to be established, maintained and held in trust by the Trustee for the benefit of the Owners of the Certificates. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE."

Except as described below, the obligation of the District to make the payments required under the Lease is absolute and unconditional, and may not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Certificates remain Outstanding.

Mortgage Interest in the Leased Property

Pursuant to the Indenture, the Lessor has granted a mortgage on the Leased Property to the Trustee for the benefit of the Owners of the Certificates. See APPENDIX D hereto for a description of the Leased Property. See also "RISK FACTORS--Foreclosure Delays" for a discussion of some of the inherent difficulties in foreclosing the mortgage on the Leased Property.

Reserve Fund; AMBAC Indemnity Surety Bond

The Indenture establishes a Reserve Fund to be funded in an amount no less than the Reserve Fund Requirement. The Reserve Fund Requirement is equal to one-half of the maximum interest on the Certificates for any Fiscal Year (excluding Appreciated Values with respect to the Capital Appreciation Certificates) from the time of determination through final maturity of the Certificates. See APPENDIX C - "DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE INDENTURE--Reserve Fund." The Reserve Fund Requirement will be initially satisfied by deposit of the Surety Bond from the Certificate Insurer in the amount of \$11,596,792.75. The Certificates will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to

the issuance and delivery of the Certificates. The Surety Bond provides that upon the later of (i) one (1) day after receipt by the Certificate Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest with respect to the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Certificate Insurer, the Certificate Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Certificates, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Certificate Insurer under the terms of the Surety Bond and the District is required to reimburse the Certificate Insurer for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement obligation of the Issuer is subordinate to the District's obligations with respect to the Certificates.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Issuance of Additional Certificates

Under certain conditions specified therein, the Indenture permits the issuance of Additional Certificates on a parity with the Certificates. So long as the Lease Term shall remain in effect and no Event of Nonappropriation or Event of Default shall have occurred, one or more issues of Additional Certificates may be issued upon the terms and conditions provided in the Indenture. Additional Certificates may be issued to provide funds to pay any one or more of the following: (i) the costs of making at any time or from time to time such substitutions, additions, modifications and improvements in, on or to the Leased Property as the District may deem necessary or desirable; and in either case the costs of the issuance and sale of the Additional Certificates, a deposit to the Reserve Fund, and capitalized interest for such period, and other costs reasonably related to the financing as shall be agreed upon by the District and the Trustee; or (ii) the costs of refunding all or any portion of the Certificates and any Additional Certificates then Outstanding.

Additional Certificates may be issued without the consent of or notice to the Certificate Owners. The prior approval of the Certificate Insurer shall be required for the issuance of Additional Certificates for the purposes specified in clause (i) of the immediately preceding paragraph. Additional Certificates may be issued only upon there being furnished to the Trustee

certain items, including originally executed counterparts of a supplemental Indenture and an amendment to the Lease, and a written opinion of nationally recognized municipal bond counsel. Each of the Additional Certificates issued under the Indenture is required to evidence the assignment of a proportionate interest in rights to receive Revenues under the Lease, as amended, proportionately and ratably secured with the Certificates originally issued and all other issues of Additional Certificates, if any, without preference, priority or distinction of any Certificates or Additional Certificates over any other. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE INDENTURE--Additional Certificates."

Limited Obligations

EACH CERTIFICATE EVIDENCES AN ASSIGNMENT OF A PROPORTIONATE INTEREST IN THE RIGHT TO RECEIVE REVENUES UNDER THE LEASE. THE CERTIFICATES ARE PAYABLE SOLELY FROM REVENUES AS, WHEN, AND IF THE SAME ARE RECEIVED BY THE TRUSTEE, AND FROM PAYMENTS MADE BY THE CERTIFICATE INSURER UNDER THE POLICY OF INSURANCE. THE CERTIFICATES SHALL NOT CONSTITUTE A MANDATORY CHARGE OR REQUIREMENT OF THE DISTRICT IN ANY ENSUING FISCAL YEAR BEYOND THE THEN CURRENT FISCAL YEAR, AND SHALL NOT GIVE RISE TO A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION AND SHALL NOT CONSTITUTE A MULTIPLE FISCAL YEAR DIRECT OR INDIRECT DISTRICT DEBT OR OTHER FINANCIAL OBLIGATION WHATSOEVER. THE ISSUANCE OF THE CERTIFICATES SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE DISTRICT TO MAKE ANY PAYMENTS BEYOND THOSE BUDGETED AND APPROPRIATED FOR THE DISTRICT'S THEN CURRENT FISCAL YEAR. NEITHER THE INDENTURE NOR THE CERTIFICATES SHALL CONSTITUTE A GENERAL CORPORATE OBLIGATION OF THE LESSOR, AND THE LESSOR SHALL HAVE NO OBLIGATION WITH RESPECT TO THE CERTIFICATES EXCEPT TO THE EXTENT OF ITS ASSIGNMENT OF THE TRUST ESTATE TO THE TRUSTEE PURSUANT TO THE INDENTURE.

CERTIFICATE INSURANCE

The Certificate Insurer has made a commitment to issue the Policy of Insurance effective as of the date of issuance of the Certificates. Under the terms of the Policy of Insurance, the Certificate Insurer will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest in the case of Current Interest Certificates, and Appreciated Value in the case of Capital Appreciation Certificates, with respect to the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Policy of Insurance). The Certificate Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest in the case of Current Interest Certificates,

and Appreciated Value in the case of Capital Appreciation Certificates, becomes Due for Payment or within one business day following the date on which the Certificate Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by the Certificate Insurer.

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

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

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

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

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

Upon payment of the insurance benefits, the Certificate Insurer will become the owner of the Certificates, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering rights to payment.

THE CERTIFICATE INSURER

Generally

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$2,642,000,000 (unaudited) and statutory capital of approximately \$1,509,000,000 (unaudited) as of March 31, 1997. Statutory capital consists of the Certificate Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Investors Service, L.P. have each assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

AMBAC Indemnity is planning to change its name to Ambac Assurance Corporation. The name change will occur on July 12, 1997, but will not be effective in a particular state until it is approved by the insurance department of that state.

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

The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by the Certificate Insurer and presented under the headings "CERTIFICATE INSURANCE," and "THE CERTIFICATE INSURER".

Available Information

The parent company of the Certificate Insurer, AMBAC Inc. (the "Company"), which will be known as Ambac Financial Group, Inc. as of July 12, 1997, is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450

Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of the Certificate Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Certificate Insurer. The address of the Certificate Insurer's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

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

- (1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and filed on March 31, 1997;
- (2) The Company's Current Report on Form 8-K dated March 12, 1997 and filed on March 12, 1997; and
- (3) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1997; and filed on May 15, 1997;

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

RISK FACTORS

THE PURCHASE OF THE CERTIFICATES IS SUBJECT TO CERTAIN RISKS. EACH PROSPECTIVE INVESTOR IN THE CERTIFICATES IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW WHICH, AMONG OTHERS, COULD AFFECT THE PAYMENT OF DEBT SERVICE ON THE CERTIFICATES, AND WHICH COULD ALSO AFFECT THE MARKET PRICE OF THE CERTIFICATES TO AN EXTENT THAT CANNOT BE DETERMINED.

Right of the District to Terminate the Lease Annually

Except to the extent payable from the proceeds of the Certificates and income from the investment thereof, from the Net Proceeds of certain insurance policies and condemnation awards, from the Net Proceeds of a foreclosure and sale of the Leased Property or from other amounts made available under the Indenture, the Certificates and the interest thereon are payable solely from payments derived under the Lease, consisting principally of the Base Rentals and Purchase Option Price, if paid, and from any payments under the Policy of Insurance. The requirement of the District to pay Base Rentals and Additional Rentals under the Lease constitutes a currently budgeted expenditure of the District, payable only if funds are appropriated by the Board each year. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Base Rentals and Additional Rentals." A variety of factors could influence the District's decision to non-appropriate.

The obligation of the District to pay Base Rentals and Additional Rentals is limited to those District funds which are specifically budgeted and appropriated annually by the Board for such purpose. Accordingly, a failure to renew the Lease would mean the loss of occupancy or use of the Leased Property by the District. The Lease declares that the present intention and expectation of the Board is that the Lease will be renewed annually until title to the Leased Property is acquired by the District pursuant to the Lease. Such declaration is not, however, binding upon the Board or upon any future Board of the District.

The obligations of the District under the Lease may be terminated on an annual basis by the District without any penalty, and there is no assurance that the District will renew the Lease. Accordingly, the likelihood that the Lease will continue in effect until the Certificates are paid is dependent upon certain factors which are beyond the control of the Certificate Owners including (a) the continuing need of the District for the Leased Property and (b) the ability of the District to generate sufficient funds from property taxes, state aid and other sources to pay obligations associated with the Lease, together with other obligations of the District. Payment of the principal of and interest on the Certificates upon the occurrence of an Event of Nonappropriation or an Event of Default will be dependent upon (a) payments under the Policy of Insurance and (b) the value of the Leased Property in a liquidation proceeding instituted by the Trustee.

In addition, the District's ability to retain and spend increased revenues may be impacted by the terms of a state constitutional amendment ("Amendment One") approved by the Colorado voters in November 1992. Amendment One limits percentage increases in District spending and revenues to enrollment growth and the percentage change in the Consumer Price Index for Denver-Boulder. Accordingly, even if the District realizes increased revenues due to increases in the District's assessed valuation, state aid or other factors, it is possible such revenues will not be available for the District's obligations under the Lease. See "AMENDMENT ONE."

Results of a Termination of the Lease

In the event that the District shall not budget and appropriate, specifically with respect to the Lease, on or before the last day of each Fiscal Year, moneys sufficient to pay all Base Rentals and the reasonably estimated Additional Rentals coming due for the ensuing fiscal year, an "Event of Nonappropriation" shall be deemed to have occurred. See APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Base Rentals and Additional Rentals" and "--Nonappropriation by District" for a discussion of the results of an Event of Nonappropriation.

Upon a termination of the Lease by reason of an Event of Nonappropriation or an Event of Default, the District is required to vacate the Leased Property (a) by the first day of the second month following the end of any fiscal year during which an Event of Nonappropriation occurs, in the case of an Event of Nonappropriation, or (b) within 120 days after notice from the Trustee, in the case of an Event of Default. The District may also terminate the Lease as a result of certain events described in APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Damage, Destruction and Condemnation." Upon the occurrence of an Event of Nonappropriation or an Event of Default and, if payments under the Policy of Insurance are insufficient to pay the principal of and interest on the Insured Certificates, the Trustee is required to foreclose on and sell the Leased Property. The Net Proceeds from a sale of the Leased Property, along with other moneys then held by the Trustee under the Indenture (with certain exceptions as provided in the Lease and the Indenture), are required to be used to redeem the Certificates, to the extent of such moneys. See the caption "THE CERTIFICATES--RedemptionProvisions--RedemptionSubsequent to a Termination of the Lease Term.

The Leased Property consists of various land and buildings used exclusively for educational purposes. See APPENDIX D hereto for a complete description of the Leased Property. A potential purchaser of the Certificates should not assume that it will be possible to foreclose on and sell the Leased Property after a termination of the Lease Term for an amount equal to the aggregate principal amount of the Certificates then outstanding plus accrued interest thereon. If the Certificates are redeemed subsequent to a termination of the Lease Term for an amount less than the aggregate principal amount thereof and accrued interest thereon, no Certificate Owner shall have any further claim for payment upon the Lessor, the Trustee or the District. The Lessor has no responsibility for the payment of principal of or interest on the Certificates under any circumstances.

The Leased Property is to be insured by policies of casualty and property damage insurance as described in APPENDIX C--"DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE LEASE AND THE INDENTURE--THE LEASE--Insurance to Be Maintained for the Leased Property." In the event of the damage to or destruction of the Leased Property, and if the Net Proceeds from such insurance policies or certain other sources are insufficient to repair or replace the Leased Property, the District may terminate its obligations under the Lease by paying such Net Proceeds into the Extraordinary Revenue Fund. If the District should exercise its option to

terminate the Lease in such an event, the Leased Property is required to be liquidated by the Trustee under certain circumstances and the proceeds of such liquidation are required to be applied to the redemption of the Certificates. See "THE CERTIFICATES--Redemption Provisions--Redemption Subsequent to Termination of the Lease Term" herein.

Real Estate Risks

The Certificates are not real estate investments. However, because of the risk of nonappropriation by the District, the Owners of Certificates will be subject to some of the same risks generally incident to the ownership of real property, including adverse local market conditions due to changes in local or general economic conditions, changes in insurance rates and increases in other operating costs, costs of capital improvements and structural repairs, government rules and fiscal policies, acts of God (which may result in uninsured losses), competition, labor problems, environmental controls, condemnation proceedings and other factors which are beyond the control of the District. Certain expenditures associated with investments in real estate (e.g., maintenance costs) are not necessarily decreased by events adversely affecting the income from such investments.

The sites on which the Leased Property are located are classified by the zoning ordinances of the City and County of Denver to comply with all other relevant and applicable zoning and land use requirements and regulations. If one or more elements of the Leased Property were sold after a termination of the Lease, the sites on which the Leased Property are located could only be used for the particular purposes allowed by any deed restrictions, the respective zoning classifications and land use regulations assigned to the sites. The limited permitted uses by right within the several zoning districts applicable to the Leased Property are set forth in the zoning ordinances of the City and County of Denver. In addition, several of the school buildings comprising the Leased Property have been designated by the City for historical preservation and as such are subject to limitations on building modifications. See APPENDIX D.

In addition to environmental law liability that may arise from specific uses of land, federal environmental law also imposes a form of "strict" liability on the simple, passive ownership of property. The legal basis therefor arises from the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA", also known as "Super Fund"), pursuant to which an owner of property on which hazardous substances have been disposed is made absolutely liable for remedial actions that may be undertaken by any governmental agency or other person. Super Fund liability is strict and without regard to fault; may be defended only upon one of the limited statutory bases specified in the law; is not generally insurable under modern insurance policies; is imposed notwithstanding the absence of involvement in the activity resulting in damage; and is imposed regardless of the knowledge of the owner of activities resulting in such damage. As construed by certain of the courts considering cases involving Super Fund, liability has also been imposed on corporate officers and shareholders, and made their personal assets subject to Super Fund liability. Although the District does not presently know of any material environmental concerns with respect to the Leased Property, the District cannot assure Certificate Owners that environmental liabilities with respect to the Leased Property will not arise in the future.

Foreclosure Delays

A termination of the Lease as a result of a termination of the Lease Term will give the Trustee the right to possession of, and the right to foreclose upon and sell, the Leased Property in accordance with the provisions of the Lease and the Indenture. The enforceability of the Certificates, the Lease and the Indenture is subject to applicable bankruptcy laws, principles of equity affecting the enforcement of creditors' rights generally and liens securing such rights, and the police powers of the State of Colorado and its political subdivisions. Because of the delays inherent in obtaining foreclosure upon real property through the courts, a potential purchaser of the Certificates should not anticipate that the foreclosure remedy of the Trustee is a remedy which could be accomplished rapidly. Any delays in the ability of the Trustee to obtain title to the Leased Property may result in delays in the payment of the Certificates after the expenditure of any amounts on deposit in the Reserve Fund.

Enforceability of Remedies

Under the Lease, the Trustee has the right to take possession of and dispose of the Leased Property upon an Event of Nonappropriation or an Event of Default. However, the enforceability of the Indenture and the Lease is subject to applicable bankruptcy laws, equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, and the police powers of the District. In addition, the application of zoning or other requirements of the District could adversely affect the ability of the Trustee to lease or otherwise dispose of the Leased Property. It should not be assumed that the remedies of the Trustee could be accomplished rapidly. Any such delays may result in delays in the payment of the Certificates except from funds otherwise available to the Trustee under the Indenture, including the Reserve Fund. See "SECURITY FOR THE CERTIFICATES."

In a recent Colorado district court action, the City of Sheridan, Colorado ("Sheridan"), sought to exercise its eminent domain powers to condemn its central administration building. The administration building is currently being leased by Sheridan under an annually terminable lease purchase agreement. Prior to initiation of the condemnation action, Sheridan had renegotiated its lease payments to accommodate its deteriorating financial condition caused by the loss of a business which generated a large percentage of its sales tax revenues (and a large percentage of its general fund budget). By condemnation, Sheridan attempted to acquire the administration building at a fraction of the remaining lease payments which would be paid to owners of certificates of participation in Sheridan's lease. On May 2, 1997, however, the district court issued an order requiring Sheridan to pay \$2.7 million to purchase the property, an amount which Sheridan claims is significantly more than it is willing to pay for the property, and is significantly less than the amount of the remaining lease payments which would have been paid to the owners of certificates of participation in Sheridan's lease. Sheridan officials have announced that the City will appeal the District Court order and will vacate the property without paying the remaining lease payments if the appeal is unsuccessful.

Effects on the Certificates of a Termination of the Lease Term

Neither Special Counsel, Underwriters' counsel nor counsel to the District has rendered an opinion with respect to the applicability or inapplicability of the registration requirements of

the Securities Act of 1933, as amended, to any Certificate subsequent to a termination of the Lease Term. If the Lease Term is terminated by reason of an Event of Nonappropriation or an Event of Default, there is no assurance that the Certificates may be transferred by a registered owner thereof without compliance with the registration provisions of the Securities Act of 1933, as amended, or the availability of an exemption therefrom.

THE LESSOR

General Description

The Lessor's Articles of Incorporation were filed with the Secretary of State of the State of Colorado on January 25, 1984. The Lessor was incorporated as a nonprofit corporation under the laws of the State of Colorado, in particular, the Colorado Nonprofit Corporation Act, part 1 of article 20 of title 7, Colorado Revised Statutes. The Lessor was primarily organized to serve as lessor for lease-purchase and similar financings to be undertaken by the District. The Lessor currently has offices located in the City and County of Denver, Colorado.

Membership

The members of the Board of Directors (the "Directors") of the Lessor are Omar Blair, James T. Holmes, Thayne McKnight, Marcia Johnson and Sherry Eastlund. The Directors have no private or proprietary interest in the Lessor and are serving ten year terms.

Limited Liability of the Lessor

The Lessor has entered into the Lease with the District and has entered into the Indenture with the Trustee. The Lessor has assigned its rights and interests under the Lease (with certain exceptions relating to the indemnification and the payment of attorneys' fees) to the Trustee for the benefit of the registered owners of the Certificates. The Lessor is not liable for the payment of Base Rentals or Additional Rentals, and the registered owners of the Certificates have no right to look to the Lessor for any payments of the Certificates or for any other payments. In addition, the Lessor has no control over the expenditure of the proceeds of the Certificates. The rights and benefits of the Certificates shall be further limited to those described in the related Lease, Indenture and Policy of Insurance.

THE DISTRICT

Generally

The District encompasses approximately 154 square miles; its boundaries are coterminous with the boundaries for the City and County of Denver. The total estimated population of the District is 492,650 and the 1996 certified assessed valuation is \$4,402,504,646. The District, with approximately 66,534 students as of October 1, 1996, is the second largest of the 176 school districts in the State of Colorado.

Organization and Powers

The District is a school district, political subdivision and body corporate, duly organized and existing under the laws and constitution of the State. Its purpose is to operate and maintain an educational program for those persons residing within its boundaries.

The District has all rights and powers delegated under the laws of the State for exercise by school districts, including the right to hold property for any purpose authorized by law; to sue and be sued; and to be a party to contracts for any purpose authorized by law. State statutes grant to the Board of Education (the "Board") the power to govern the District. General duties which the Board is empowered to perform include the following: to adopt policies and prescribe rules and regulations necessary and proper for the administration of the District; to carry out the educational programs of the District; to fix and pay personnel compensation; to determine the educational programs to be provided by the District; to prescribe the textbooks for any course of instruction to study in such programs; to adopt written policies, rules and regulations relating to the study, discipline, conduct, safety and welfare of all pupils; and to comply with all the rules and regulations adopted by the State Board of Education.

The Board is also granted specific powers to be exercised in its judgment. Notable among these are the powers to purchase, lease, or rent undeveloped or improved property located within or outside District boundaries as the Board deems necessary for use as school sites, buildings, or structures, or for any school purpose authorized by law; to sell District properties which may not be needed in the foreseeable future for any purpose authorized by law, upon such terms and conditions as the Board may approve; to determine the location of each school site, building, or structure; to construct, erect, repair, alter, and remodel buildings and structures; to provide furniture, equipment, library books, and such other items as may be needed to carry out the District's educational programs; to discharge or otherwise terminate the employment of any personnel; to procure group life, health, or accident insurance covering employees of the District; to fix attendance boundaries; to procure appropriate property damage casualty, public liability, and accident insurance; and to contract for the transportation of pupils enrolled in the District's public schools.

The Board of Education

The seven members of the Board are elected at successive biennial elections to staggered four-year terms of office. Two of the members of the Board are elected at-large by the registered electors of the entire District; the remaining five members of the Board are elected by the registered electors of the District residing within their respective director-districts. The Board is a policy-making body whose primary functions are to establish policies for the District, provide for the general operation and personnel of the District and oversee the property, facilities and financial affairs of the District. Members of the Board serve without compensation. The present Board members, their offices on the Board, principal occupations, lengths of service on the Board, and terms of offices are as follows.

| <u>Name</u> | <u>Office</u> | <u>Principal Occupation</u> | <u>Years of Service</u> | <u>Term Expires</u> |
|-----------------------------------|----------------|---|-------------------------|---------------------|
| Susan Edwards | President | Insurance Administrator | 1 Year | 11/99 |
| Lynn Coleman | Vice President | Photographer | 5 Years | 11/97 |
| Laura Lefkowits | Secretary | Community Activist | 1 Year | 11/99 |
| J.P. Hemming | Treasurer | Engineer | 3 Years | 11/97 |
| Rita Montero | Member | Executive Director-Law | 1 Year | 11/99 |
| Lee White | Member | Investment Banker | 1 Year | 11/97 |
| Bennie L. Milliner ⁽¹⁾ | Member | Administrative Assistant to Denver City Councilmember | N/A | 11/97 |

⁽¹⁾ Appointed to the Board on December 19, 1996 to fill a vacancy due to the recent resignation of a Board member.

Administrative Staff and Management

Certain information concerning the background and experience of the District's superintendent, chief operating officer and chief financial officer is set out below.

Superintendent. The Board is empowered to employ a chief executive officer, the Superintendent, who is responsible to the Board for the daily operations of the District. The Superintendent is charged with the responsibility for the overall operational management and instructional program of the District, all within the human and financial resources available, as well as being responsible for the philosophical position of the District. The Superintendent works collaboratively with the Board to provide effective leadership for all District personnel in their efforts to accomplish the District mission, *"To guarantee that our children and youth acquire knowledge, skills, and values to become self-sufficient citizens by providing personalized learning experiences for all students in innovative partnerships with all segments of the community."*

As the 20th superintendent of the District, Irv Moskowitz brings a wide range of educational experience to the District. He has strong skills in district administration, community relations, staff development, finance and curriculum. Mr. Moskowitz is familiar with the District, having served as a principal, district planner, and assistant superintendent in the District from 1974 to 1985. He was instrumental in designing the Fred N. Thomas Career Education Center, a "cutting edge" career preparatory school, and became its first principal in 1976.

Prior to being named superintendent of the District in 1994, Mr. Moskowitz was superintendent of Pomona (California) Unified School District from 1989-1994, superintendent of Cleveland Heights-University Heights (Ohio) City School District from 1986-1989, and special assistant to the Colorado Commissioner of Education from 1985-1986.

Mr. Moskowitz earned his bachelor's degree from New York University, his master's degree from Rutgers University and has completed graduate work in school administration at Teachers College at Columbia University, Denver University and the University of Colorado.

Chief Operating Officer. Craig A. Cook has 28 years of military, professional business and management experience. Prior to being appointed chief operating officer for the District in September 1994, he had a successful army career, and spent six years as a school business administrator for the Kansas City, Missouri School District. In 1968, Mr. Cook was commissioned a Second Lieutenant in the field artillery. He was sent to Vietnam as an Air Mobile/Assault Artillery Commander, where he was awarded two bronze stars, air medal, and Vietnamese gallantry cross for action. After returning from Vietnam, Mr. Cook attended senior level army staff courses, and the Department of Defense's Joint Comptrollership Course. He held successful commands and leadership positions, including the comptroller for NATO's international headquarters and Deputy Chief of Staff for Resources Management for the Combined Arms Center and Training Command.

Following retirement from the Army, Mr. Cook was hired as the Director of Accounting and Investment for the Kansas City, Missouri School District. Over a five-year period, he was promoted to the Assistant Superintendent of Business and Finance/Special Assistant to the Superintendent for Administrative Services.

Mr. Cook is a graduate of the University of Idaho where he received a bachelors degree in accounting. Mr. Cook also holds a masters degree in business administration.

Chief Financial Officer. Velma Rose has been with the District for ten years, the first four years as Budget Director and Executive Director of Budgetary Services, and since July 1990 as the Chief Financial Officer, with oversight over general accounting and accounts payable, budgeting, financial planning, debt management and risk management. During this time, Ms. Rose has represented the District on the Colorado Department of Education's Financial Policies and Procedures Committee and on the Board of Directors of the Colorado School Districts Self Insurance Pool. She has also been an active member of the Colorado Association of School Executives and the School Officials Division of the Council of Great City Schools. In addition, since April 1997, Ms. Rose has served as the Superintendent's designee on the Board of Directors of the Plan (defined below).

Prior to joining the District, Ms. Rose had a career in public accounting for six years and served as Controller and the Finance Director for the Regional Transportation District in Colorado for two years. She has been a member of the Government Finance Officers Association since 1985 and continues to serve as a reviewer for GFOA's Budget Awards Program.

Ms. Rose is a graduate of the University of Colorado, receiving her BS in Accounting in 1976 and MBA in 1977. Ms. Rose received her CPA certificate in 1979, and is a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants.

District Employees and Labor Relations

The District currently employs approximately 10,673 personnel; 6,089 of which are full time and 4,584 of which are part time. Included in the total number of employees are 4,309 certified and 6,364 classified employees. Classified employees include administrators, nurses/health aides, professional/technical staff, secretaries, clerks, counselors, bus drivers, custodians, mechanics, food service, warehouse staff, and other non-affiliated staff. The number of District employees has been stable over the last several years and is projected to remain stable. As of September 1, 1996, the certificated employees of the District hold the following degrees:

| <u>Degree Held</u> | <u>Percent of Certificated Staff</u> |
|---------------------------------|--|
| Bachelors | 20.8% |
| Bachelors plus ⁽¹⁾ | 20.2 |
| Masters | 24.2 |
| Masters plus ⁽¹⁾ | 32.5 |
| Doctorate/Masters Plus 75 hours | <u>2.2</u> |
| Total | 100.0% |

⁽¹⁾ Credit hours acquired toward an advanced degree.

Approximately, 87% of the District's teachers are non probationary, with the average salary for teachers being \$39,522. As of September 1, 1996, the overall student(F.T.E.)/teacher ratio was 24:1.

Employee Benefits. The District has developed a comprehensive compensation package for its employees. Available benefits include health, dental, vision, group life, and disability insurance plans to which the District contributes a fixed amount. Workers compensation and unemployment insurance are provided in accordance with state law. All of the District's full-time employees are members of the Denver Public School Employees' Pension and Benefit Association, a single-employer defined benefit pension plan (the "Plan"). For additional information regarding the Plan, see "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Pension and Benefit Plan."

Labor Relations. Teachers are employed by the District pursuant to contracts established by the Board. Approximately 70% of the District's eligible personnel are represented by the Denver Classroom Teachers Association (the "DCTA"), the local chapter of the Colorado Education Association and the collective bargaining agent for the District's teachers. In addition, 26% of the District's classified office staff are members of the Denver Association of Educational Office Professionals (the "DAEOP"), an affiliate of the Colorado Educational Association. Labor relations for the District are accomplished through a process of meeting and conferring by representatives of the Board and representatives of the various employee groups. Recommendations which emanate from this process are then presented to the Board for consideration and decisions on final policy. According to District officials, management/employee

relations are currently stable. The current DCTA and DAEOP contracts expire on August 31, 1999 and August 31, 1997, respectively.

District Population and Enrollment

District enrollment declined between school years 1986-87 and 1988-90 and has been generally increasing since that time. The decline is consistent with the general decline in the Colorado economy during that period. The enrollment increase since school year 1989-90 reflects that younger families are moving into the City and County of Denver. The following population statistics are based on October student counts.

District Enrollment 1985-1996

| <u>School Year</u> | <u>Enrollment</u> | <u>Percent Change</u> |
|--------------------|-------------------|-----------------------|
| 1985-86 | 60,256 | -- |
| 1986-87 | 60,315 | 0.1% |
| 1987-88 | 59,466 | (1.4) |
| 1988-89 | 58,664 | (1.4) |
| 1989-90 | 58,312 | (0.6) |
| 1990-91 | 59,105 | 1.4 |
| 1991-92 | 60,704 | 2.7 |
| 1992-93 | 62,935 | 3.7 |
| 1993-94 | 62,702 | (0.4) |
| 1994-95 | 62,771 | 0.1 |
| 1995-96 | 64,358 | 2.5 |
| 1996-97 | 66,534 | 3.4 |

Source: The District

Curriculum, Instruction and Accreditation

The District offers a comprehensive curricula. The District's special education and gifted and talented programs are among the most highly respected programs of their kind in Colorado. Furthermore, the District's adult education program at Emily Griffith Opportunity School is widely recognized across the country.

The District is fully accredited by the Colorado Department of Education through August 31, 2000 and is subject to periodic monitoring by the state to ensure continued compliance with accreditation. The District has never been threatened with or lost its accreditation. In addition, the District's ten regular high schools and its Emily Griffith Opportunity School are fully accredited by the North Central Association of Schools and Colleges.

Facilities

The District operates and maintains a variety of facilities to accommodate its educational program for the community it serves, including a central administrative facility, 80 elementary schools, 18 middle schools, 10 high schools, two alternative education centers, one career education center, one adult opportunity school, one all-city athletic facility, one outdoor athletic facility, one aircraft training center and five other support buildings (transportation, warehouse and service facilities). In all, the District owns 129 facilities and approximately 1,660 acres of land. In addition, the District also owns numerous vehicles including a fleet of school buses, maintenance and food service vehicles.

See "District Capital Plans" hereafter for a discussion of the District's capital needs. See APPENDIX D for a schedule of the Leased Property which has been pledged as security for the Certificates under the Indenture.

District Capital Plans

The District is completing a five year \$199.6 million capital improvement program that provides new and remodeled facilities, systems development, including fire alarms and communications equipment, major maintenance such as roofs, boilers, capital equipment and safety items. The District is currently formulating a plan for meeting capital needs for the next five years. This program will include:

- New construction for growth areas that are generating new enrollment
- Additions to existing facilities where enrollment exceeds capacity
- Educational technology systems
- Repair and maintenance
- Capital equipment
- Safety projects

Although the cost of this 5-year plan has not been finalized, the District anticipates that the issuance of general obligation bonds (subject to voter approval) would be the primary funding source.

FINANCIAL INFORMATION CONCERNING THE DISTRICT

Accounting Policies

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The basic format for the financial operation of the District is provided by State law, which creates six funds for school districts: the General Fund, Bond Redemption Fund, Capital Reserve Fund, Special Building Fund, Insurance Reserve Fund and Transportation Fund. Interpretive regulations of the State Board of Education also may authorize the use of additional funds. The District maintains the following additional funds: the Food Services Enterprise Fund, Government Designated Purpose Grants Fund, Pupil Activity Fund, Nonexpendable Trust Funds, Expendable Trust Funds, Student Activity Fund, and the Internal Service Fund.

All revenues except those attributable to the Bond Redemption Fund, the Capital Reserve Fund, Transportation Fund and any other fund authorized by State law and the State Board of Education are accounted for in the General Fund, and any lawful expenditure of the District may be made from the General Fund and recorded therein. If the District has any outstanding general obligation indebtedness, the revenues from tax levies made for the purpose of paying debt service on such indebtedness would be recorded in the Bond Redemption Fund. Amounts on deposit in the District's Bond Redemption Fund are not available to pay any amounts coming due with respect to the Certificates. See the caption "DEBT AND OTHER FINANCIAL OBLIGATIONS" herein. The Capital Reserve Fund is funded by transfers from the General Fund. See the caption "State Equalization Payments" herein.

The District received the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for its comprehensive annual financial report for the fiscal year ended June 30, 1995. Such certificate is the highest form of recognition in the area of governmental finance reporting and is awarded to governmental entities whose comprehensive annual financial reports are judged to conform substantially to program standards. The District has received a Certificate of Achievement for the last eleven consecutive fiscal years.

Sources of Revenue

The District receives revenues from a variety of local and state sources, the most important of which are described below.

State Equalization Payments. One of the largest sources of revenue to the District has historically been the state equalization support program payment received from the State pursuant to the Public School Finance Act of 1988, as amended (the "1988 School Finance Act"), and the Public School Finance Act of 1994, as amended (the "1994 Act"). The District received \$98,877,197 or 31% of total General Fund revenue, in State equalization funding in the 1995-96 fiscal year, and has budgeted to receive and the State has appropriated \$115,331,635 from such source to be credited to the General Fund in the 1996-97 fiscal year.

The 1994 Act revised the formula for distributing State moneys to school districts previously applied under the 1988 School Finance Act. The 1994 Act applies to all State school districts for budget years beginning on and after July 1, 1994, and its provisions are to be used to calculate for each school district an amount that represents the financial base of support for

public education in that district (the "Total Program"). After determining the Total Program, such amount is funded by both the school district's share and the State share.

Generally, a school district's Total Program amount for any budget year is determined by the number of pupils enrolled in a school district (or a two-year average enrollment, if declining) multiplied by a cost factor. The cost factor is the greater of (i) \$3,975, or (ii) a cost factor that takes into account the number of "at-risk" pupils within a school district if such number is above a base state average. The State legislature has established a base level of per pupil funding equivalent to \$3,568 for fiscal year 1996-1997. The number of at-risk pupils are either those eligible for the school district's free lunch program, or those arrived at by formula which takes into account those eligible for the free lunch program. If a school district has a greater percentage of at-risk pupils than the statewide average and has a pupil enrollment of over 459, adjustments are made to the Total Program formula. Such adjustments include consideration of personnel costs, local cost of living, nonpersonnel costs and school district size factors.

After determining a Total Program figure, a school district's share of such amount is the amount it raises by mill levy (assuming 100% collection) plus the amount of specific ownership tax revenue paid to such school district in the prior fiscal year attributable to the General Fund, excluding any budget election revenue (collectively, the "District Contribution"). The State share is the difference between the District Contribution and the Total Program amount. The amount of a school district's mill levy is to be the lesser of (i) the number of mills levied by the school district for the immediately preceding property tax year; (ii) the number of mills that will generate property tax revenue in an amount equal to the school district's Total Program for the applicable budget year minus the minimum state aid minus the amount of specific ownership tax revenue paid to the district; or (iii) the number of mills that may be levied by the school district under the property tax revenue limitation imposed on such school district under Amendment One. See "AMENDMENT ONE."

The State General Assembly is to make annual appropriations to fund the State's share of the Total Program of all school districts. The availability of State funds to the District may be affected by actions of the General Assembly and by the cash position of the State itself, as to which the District can give no assurance. In the event that the State's appropriation for its share of the Total Program of all school districts is not sufficient to fund fully the State's share, the State Department of Education must submit a request for a supplemental appropriation in an amount which will fund fully the State's share during the fiscal year in which such insufficiency occurs. If a supplemental appropriation is not made, a percentage reduction in State aid to all school districts receiving State aid is to be made. As noted above, the District's share of the State's Total Program amount is deposited in the District's General Fund.

Local Revenues. The primary source of local revenue to the District is the ad valorem tax annually levied on and against all of the taxable property within the District for operations of its General Fund and Bond Redemption Fund. Taxes levied in one year are collected in the following year. See the caption "Property Tax Levies and Collections" below. The tax levied for the General Fund is distinct from the tax levied by the District for its Bond Redemption Fund. See

"State Equalization Payments" above. Nonetheless, both taxes are levied and collected in the manner described under the caption "Assessed Valuation and Property Tax Levies."

The District's General Fund levy in the 1995-96 fiscal year produced \$185,943,908 or 57% of the total revenue in the General Fund. The District anticipates that the General Fund levy will produce \$188,424,384 of the total revenue in the General Fund for the 1996-97 fiscal year.

Other sources of local revenue received by the District include the District's share of the annual specific ownership tax levied by the State on owners of motor vehicles, interest income earned on the District's investments, rentals, tuition, delinquent taxes and interest thereon, and miscellaneous income. The District has budgeted to receive \$23,212,718 in such sources in the 1996-97 fiscal year.

Historical General Fund Financial Information

The General Fund accounts for all transactions of the District not required to be accounted for in other funds. The fund represents and accounts for the District's ordinary operations financed primarily from state aid and property taxes and is the most significant fund in relation to the District's overall operations.

Set forth hereafter is a comparative statement of revenues, expenditures, and changes in fund balances for the District's General Fund, which are derived from the District's audited general purpose financial statements. The following information should be read together with the District's financial statements and accompanying notes appended thereto.

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General Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Year Ended December 31, 1991, Fiscal Period Ended June 30, 1992 and
Fiscal Years Ended June 30, 1993-96 (1)

| | Fiscal Year 1991 | Fiscal Period 1992 (2) | Fiscal Year 1992-1993 | Fiscal Year 1993-1994 | Fiscal Year 1994-1995 | Fiscal Year 1995-1996 |
|--|----------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Beginning Fund Balance (Deficit) (GAAP) | \$2,014,561 | (\$3,129,136) | (\$8,807,306) | (\$10,605,581) | (\$5,222,186) | (\$4,864,817) |
| Local Revenue Sources: | | | | | | |
| Property Tax | 187,578,362 | 140,817,172 | 218,173,956 | 181,174,898 | 180,362,996 | 185,935,662 |
| Delinquent Taxes and Interest | 1,225,850 | (1,495,710) | 489,567 | 898,033 | 729,498 | 704,522 |
| Specific Ownership Tax | 14,759,637 | 6,770,995 | 14,562,120 | 15,199,579 | 17,127,286 | 18,239,646 |
| Tuition | 110,017 | 72,845 | 197,614 | 215,693 | 270,102 | 98,327 |
| Interest on Investments | 2,888,464 | 703,433 | 921,220 | 514,504 | 1,380,359 | 1,426,414 |
| Other Local Sources | 581,729 | 2,547,951 | 570,108 | 1,800,729 | 1,334,267 | 737,257 |
| Total Local | 207,144,059 | 149,416,686 | 234,914,585 | 199,803,436 | 201,204,508 | 207,141,828 |
| State Revenue Sources: | | | | | | |
| Finance Act | 70,343,681 | 956,067 | 54,276,083 | 85,859,882 | 87,271,796 | 98,877,197 |
| Vocational Education | 1,103,562 | 649,143 | 1,027,888 | 883,464 | 1,033,267 | 43,147 |
| Special Education | 6,140,281 | 2,945,207 | 5,428,762 | 6,865,214 | 6,676,837 | 7,760,266 |
| Transportation | 4,843,254 | 2,424,001 | 4,700,119 | 5,292,403 | 6,765,775 | 4,583,041 |
| Other State Sources | --- | --- | --- | --- | 1,538,908 | 559,547 |
| Total State | 82,430,778 | 6,974,418 | 65,432,852 | 98,900,963 | 103,286,583 | 111,823,498 |
| Federal Revenue Sources: | | | | | | |
| Impact Aid | 622,236 | 386,399 | 637,711 | 875,166 | 695,953 | 582,229 |
| Other Federal Revenue Sources | 375,884 | 191,293 | 388,627 | 414,297 | 487,408 | 452,199 |
| Total Federal | 998,120 | 577,692 | 1,026,338 | 1,289,463 | 1,183,361 | 1,034,428 |
| Operating Transfers In Proceeds from Capital Lease | 3,557,344 | 2,573,569 | 7,673,491 | 5,525,494 | 5,206,076 | 5,596,735 |
| Total Revenue | 294,846 | 19,958 | --- | 50,000 | ---- | 4,485,253 |
| Total Resources | 294,425,147 | 159,562,323 | 309,047,266 | 305,569,356 | 310,880,528 | 330,081,742 |
| | \$296,439,708 | \$156,433,187 | \$300,239,960 | \$294,963,775 | \$305,658,342 | \$325,216,925 |

General Fund

Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
Fiscal Year Ended December 31, 1991, Fiscal Period Ended June 30, 1992 and
Fiscal Years Ended June 30, 1993-96 (1)

| | Fiscal Year 1991 | Fiscal Period 1992 (2) | | Fiscal Year 1992-1993 | | Fiscal Year 1993-1994 | | Fiscal Year 1994-1995 | | Fiscal Year 1995-1996 | | |
|---|---------------------|---------------------------|-----------|--------------------------|--------------------------|---|---------------------------|--------------------------------------|--------------------------------|--------------------------|------------------------|------------------------------|
| | | Expenditures: | Current: | Expenditures: | Operating Transfers Out: | To Insurance and Capital Reserve Funds(3) | To General Fund Subsidies | Ending Fund Balance (Deficit) (GAAP) | Salaries Earned but Unpaid (4) | Reserve for Encumbrances | Net Income Adjustments | Budgetary Basis Fund Balance |
| Instruction | 173,892,610 | 99,923,855 | | 181,916,162 | 181,048,601 | | | | 30,237,240 | 30,360,048 | | 31,081,942 |
| Supporting Services | 52,906,046 | 27,188,346 | | 55,645,433 | 52,539,073 | | | | (4,924,740) | (5,643,162) | | 35,066,407 |
| Business Supporting Services ⁽³⁾ | 49,916,657 | 26,701,622 | 133,315 | 51,144,517 | 49,310,928 | 200,175 | 85,870 | | (2,179,832) | (3,361,606) | | (3,580,329) |
| Community Services | 260,708 | | | | | | | | | | | (3,713,723) |
| Nonprogrammed Charges | 3,235,237 | 2,003,403 | | 3,889,207 | 4,173,129 | | | | | | | (6,516,106) |
| Capital Outlay | 3,473,826 | 1,323,244 | | 2,500,946 | 2,745,554 | | | | | | | (2,620,734) |
| Debt Service | 580,828 | 542,027 | | 190,543 | 147,019 | | | | | | | |
| Total Expenditures | 284,265,912 | 157,815,812 | | 295,486,983 | 290,050,174 | | | | 295,778,654 | 295,778,654 | | 319,894,872 |
| Operating Transfers Out: | | | | | | | | | | | | |
| To Insurance and Capital Reserve Funds(3) | 11,280,959 | 5,695,069 | | 11,788,587 | 7,891,665 | | | | | | | |
| To General Fund Subsidies | | 4,021,973 | 1,729,612 | 3,569,971 | 2,244,122 | | | | | | | |
| Ending Fund Balance (Deficit) (GAAP) | (\$3,129,136) | (\$8,807,306) | | (\$10,605,581) | (\$5,222,186) | | | | | | | |
| Salaries Earned but Unpaid (4) | 20,554,924 | 30,466,916 | | 30,237,240 | 30,360,048 | | | | | | | |
| Reserve for Encumbrances | (3,096,783) | (4,924,740) | | (5,643,162) | (5,044,576) | | | | | | | |
| Net Income Adjustments | (3,170,239) | (2,179,832) | | (3,361,606) | (5,616,556) | | | | | | | |
| Budgetary Basis Fund Balance | \$11,158,766 | \$14,555,038 | | \$10,626,891 | \$14,476,730 | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

(1) Results are presented using the generally accepted accounting principles (GAAP) basis.

(2) The District converted to a July 1 through June 30 fiscal year in 1992. The figures for 1992 are based on the six-month transitional fiscal period January 1, 1992, June 30, 1992.

(3) Effective July 1, 1995, the Insurance Reserve Fund was reclassified from a Special Reserve Fund to an Internal Service Fund in accordance with GASB No. 10. As a result for fiscal year 1995-1996, \$2,865,912 was reclassified from Operating Transfers Out to Business Supporting Services Expenditures.

(4) During a calendar year, teachers (and other District employees) had worked the equivalent of four months yet had been paid for only three months (i.e., 44% of salary earned but 33% paid), resulting in a salary accrual of 11% of the annual salary is recorded for GAAP purposes. In a July-June fiscal year, a teacher earned 100% of the salary yet had been paid for only ten months, or 83%, thus a salary accrual of 17% is recorded for GAAP purposes. Source: The District

Budgetary Process and Information

The District is required by the provisions of the School District Budget Law of 1964, Article 44 of Title 22, Colorado Revised Statutes, as amended (the "Budget Law"), to formulate a balanced budget and to hold a public hearing thereon prior to the determination of the amounts to be financed in whole or in part by ad valorem property taxes, funds on hand or estimated revenues from other sources. The budget must specify the amounts budgeted for proposed expenditures by funds, the amounts budgeted to be transferred from the general fund to the capital reserve fund and the insurance reserve fund, the corresponding amounts budgeted by fund that were actually expended during the last completed fiscal year and anticipated to be expended during the current fiscal year, all revenue anticipated for the ensuing fiscal year classified as to funds and sources of income, and the fund balance at the end of the fiscal year.

Prior to January 1, 1992, State school districts, including the District, operated on a January 1 to December 31 fiscal year. In 1990, State law was amended to provide that all State school districts, including the District, would operate on a transitional fiscal year beginning on January 1, 1992 and ending on June 30, 1992 and would thereafter operate on a July 1 to June 30 fiscal year.

As part of the budgeting process of the District, the Superintendent of the District submits a proposed budget to the Board at least 30 days prior to the beginning of the next fiscal year. After conducting a public hearing on the budget proposals, at which time any person paying school taxes in the District has an opportunity to be heard, the Board must adopt a final budget for the succeeding year prior to June 30 of each year by formal resolution specifying the amount of money appropriated to each fund, and must certify to the City Council of the City & County of Denver Colorado, by December 15 of each year the amounts necessary to be raised from levies against the assessed valuation of all taxable property located within the District for its General Fund and Bond Redemption Fund to defray expenditures therefrom during the next ensuing fiscal year. The Board cannot expend any moneys in excess of the amount appropriated by resolution for a particular fund.

The annual budget is the financial operating plan for the District after adoption by the Board. Should the Board of the District determine that the property tax mill levy should be increased beyond the authorized limit set by State statutes, the Board of the District may submit such proposed increase at a general election for approval and, if such increased levy is approved, may adopt a supplemental budget. While the budget may be revised from time to time after following steps required by Board policy and State law, statutes prohibit the board of education of any school district to expend any moneys in excess of the amount appropriated by resolution for a particular fund.

Set forth hereafter is a summary and comparison of the District's 1995-96 and 1996-97 general fund budgets. According to the District, available resources for the General Fund will increase by \$24.5 million in 1996-97 primarily as a result of funding formula revisions approved by the State legislature in 1996. See also "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Management's Discussion and Analysis of Recent Operating Results" herein.

General Fund Budget Summary and Comparison

| | <u>1995-1996</u> | <u>1996-1997</u> |
|---------------------------------|--------------------|--------------------|
| BEGINNING FUND BALANCE | \$ 16,262,810 | 20,034,248 |
| REVENUES BY SOURCE | | |
| Local Sources | 208,944,707 | 211,637,102 |
| State Sources | 111,546,968 | 129,719,254 |
| Federal Sources | <u>5,243,776</u> | <u>5,103,835</u> |
| Total Revenues | <u>325,735,451</u> | <u>346,460,191</u> |
| Total Funds Available | \$341,998,261 | \$366,494,439 |
| EXPENDITURES | | |
| Salaries | 209,321,476 | 226,791,685 |
| Purchased Services | 17,718,325 | 23,496,876 |
| Supplies-Materials | 19,753,720 | 20,994,840 |
| Capital Outlay | 2,556,567 | 3,508,111 |
| Other Expenses | 681,724 | 728,688 |
| Interfund Transfers | 14,704,062 | 13,060,996 |
| Employee Benefits | 62,477,401 | 64,623,275 |
| Contingency Reserve | 5,484,986 | 3,989,968 |
| Emergency Reserve | <u>9,300,000</u> | <u>9,300,000</u> |
| Total Expenditures and Reserves | \$341,998,261 | \$366,494,439 |

Source: The District

Further information relating to the General Fund as well as certain other funds of the District, may be found in the General Purpose Financial Statements of the District for the fiscal year ended June 30, 1996 attached hereto as APPENDIX A.

Management's Discussion and Analysis of Recent Operating Results

The following section provides an analysis of the recent operating results of the District according to the District's management. The Underwriters take no responsibility for the accuracy of the information in this section.

Revenues. Total revenue from 1991 through Fiscal Year 1996 increased from \$294 million to \$330 million largely due to School Finance Act funding increases attributable to enrollment growth and increases in per pupil funding and to proceeds from capital leases. School Finance Act formula funding is derived from three sources: state equalization, 40.080 mills of property taxes, and a portion of specific ownership taxes.

Local sources has fluctuated during this period primarily due to the drop in the assessed valuation upon which property taxes are collected from \$4.752 billion to \$4.303 billion, from the ability to increase the abatements levy for 1996 tax collections and from the fluctuation in the tax collections percentage. Delinquent taxes tend to fluctuate from year to year, specific ownership taxes are on the rise and tuition fluctuates. Interest on investments approached \$3 million in 1991 which was to be expected for the District when school districts were on a calendar year. However, in the six-month period ending June 30, 1992, the state remitted minimal state aid to the District as school districts who were property-tax dependent were expected to operate on 24 months of property taxes and 12 months of state aid during the eighteen-month period January 1, 1992, through June 30, 1993, while the state converted from a calendar year to a fiscal year. This was the means by which the state achieved its goal of saving money for the state. As 90-95% of levied taxes are collected during February through June, and there was minimal state aid in the six month transitional period, investible funds were not at the level as that in a calendar year. Many school districts, such as the District, have participated in the State Treasurer administered State Interest Free Loan Program since 1992 which was established to address the cash flow needs of school districts resulting from the fiscal year change. The District's interest earnings increased again in Fiscal Years 1995 and 1996 because of the State Treasurer's ruling that the Emergency Reserves of school districts cannot be used for cash flow purposes prior to borrowing from the State Interest Free Loan Program. Other local sources were at the \$2.5 million level in the six-month period ending June 30, 1992, compared to the \$.6 million in the 12-month periods preceding and following due to the District being a recipient of some \$2 million of interest earned by the Colorado Association of School Boards Lease Pool because of the approximately \$100 million in general obligation bonds issued through this financing mechanism. Other sources were high in Fiscal Year 1994 due to the Pope's visit to Denver and the resultant rental of buildings and buses for this event. Fiscal Year 1995 includes external funding received by one of the District's charter schools. Fiscal Year 1996 does not reflect this funding amount as a change in accounting treatment.

State sources have increased since 1991 due to the increase in the state's share of School Finance Act funding (again, due to the drop in the property tax share as described above and to the overall increase in Finance Act funding attributable to enrollment and per pupil financing increases). Vocational education funding fluctuates from year to year. Special Education funding has increased due to the state's increase in its appropriation for this support; however, transportation funding fluctuated. Moneys due the District for Fiscal Years 1994 and 1995 were \$1.5 million greater than they otherwise would have been because the state legislature made a special appropriation of \$1.5 million for those school districts subject to a federal desegregation court order. As the Federal court ruled in September 1995 that the District was no longer subject to the desegregation court order, the legislature eliminated this supplemental funding entitlement

for Fiscal Year 1996. The other state sources received in Fiscal Year 1995 was as a result of an application to the state for contingency funding to cover the amount of prior year property tax abatements and credits that the District could not recoup through the then fixed abatement levy. The State Supreme Court ruled in June 1995 with regard to another school district that the abatement levy could fluctuate as it was meant to recoup prior lost revenues; thus, was not subject to the limitations of Amendment One. The other state sources for Fiscal Year 1996 include one-time energy conservation funding of \$185,000 and a payment from the state of \$374,000 based on their audit of the District's Fiscal Year 1995 School Finance Act and transportation funding.

As for federal sources, impact aid has remained relatively flat, thanks to the hold harmless provision with respect to the Lowry closure in Fiscal Year 1994. Other federal sources represents Fourth Army reimbursements for ROTC instructors.

Expenditures. Expenditures from 1991 through Fiscal Year 1996 increased from \$284 million to \$319 million due to inflation, enrollment growth and capital leases. Instructional expenses have been on the rise while support services have remained relatively flat due to the District's concerted effort to be more efficient and to focus resources on the classrooms. Nonprogrammed charges largely represent tuition paid to non-District facilities for Denver-resident students with special needs that cannot be served by the District. The numbers of these students and the degree of need have increased over the years.

Operating Transfers. The amount of funding to be transferred or allocated to the Capital and Insurance Reserve Funds is stipulated in the School Finance Act. The minimum per pupil amount has approximated \$210 per pupil. The state legislature permitted districts to reduce the amount transferred in Fiscal Year 1994, in order to meet other District funding needs. Other General Fund subsidies include the Pupil Activity Fund and the Second Chance Program at the District's Emily Griffith Opportunity School. Beginning with Fiscal Year 1996, the Insurance Reserve Fund was reclassified as an Internal Service Fund, in accordance with Government Accounting Standards Board Statement No. 10, thus changing the treatment of the General Fund's contribution as Business Supporting Services instead of an Operating Transfer Out.

Fund Balance. The Fund Balance on a generally accepted accounting principles (GAAP) basis has been a negative figure primarily due to school districts in the State of Colorado not being required to fund its salaries earned but unpaid in its annual budget. If school districts had an August 31 fiscal year end, this liability would not exist, as it represents July and August paychecks for the earning period ended June 30. School budget law also requires the encumbering of current budgeted funds for any orders of goods and services not received. The net income adjustments result primarily from revenues being on a cash basis for budgetary purposes and on the accrual basis for GAAP purposes. As a result, the budgetary basis fund balance has been in excess of \$10 million. Of this fund balance, \$3 million, \$6.2 million and \$9.3 million represent the Amendment One Emergency Reserve for Fiscal Years 1994, 1995 and 1996, respectively.

Assessed Valuation and Property Tax Levies

For the 1996 levy/1997 collection year, Colorado statutes require residential property to be assessed at 10.36% of "actual" value and almost all other property at 29% of "actual" value. With certain exceptions, the assessed value of all taxable property is determined by the county assessor utilizing a level of value which is the "actual" value of such property as ascertained from manuals and associated data published by the State property tax administrator for a statutorily defined period preceding the assessment date. The level of value for assessment year 1994 was the one and one-half years immediately prior to July 1, 1992. The classes of real property whose "actual" value is not determined by a level of value include oil and gas leaseholds and lands, producing mines and other lands producing nonmetallic minerals.

For each year in which there is a change in the level of value used in determining actual value, the Colorado General Assembly, pursuant to the authority granted in Section 3 of Article X of the State constitution, must, by law, adjust the percentage of actual value applicable to residential property in order that the percentage of aggregate Statewide valuation for assessment which is attributable to residential real property for such year equals the target percentage, which is a percentage designed to ensure that the percentage of the aggregate Statewide valuation for assessment which is attributable to residential property remains the same as it was in the year immediately preceding the year in which such change occurs. For 1993 and 1994, the residential assessment ratio was reduced to 12.86% from 14.34%. For 1995 and 1996, the ratio was further reduced to 10.36%, and for 1997 and 1998, it was reduced again to 9.71%.

The Colorado statutes now provide for an annual review of Statewide assessment compliance. The Director of the Legislative Council is authorized to retain an independent contractor to review assessments and determine deviations from established compliance tolerances. Based on the independent contractor's report, the State Board of Equalization may issue orders to County Assessors to reappraise classes of property found not to be in compliance with acceptable valuations.

Property taxes are levied on December 15 and are due and attach as a lien on property the following January 1. Taxes levied in one year are payable in the succeeding year. The county collects such taxes and pays the same to each taxing district. At the option of the taxpayer, property taxes are payable in full by the last day of April or in two equal installments due and payable no later than February 28 and June 15. Penalty interest accrues on any portion of the taxes unpaid as of the respective due dates. Penalty interest accrues on the first installment at the rate of one percent per month from the first day of March through June 15, and on June 16, all unpaid amounts accrue interest at the rate of 1% per month.

The county treasurer is empowered to sell property upon which levied taxes remain unpaid at public auction, after due process of law. All property not sold to buyers at the public auction is purchased by the county. The property may be redeemed by the original owner at any time up to three years after the public auction by payment of all unpaid taxes, penalties, interest and certain

costs. If the property is not so redeemed, the county treasurer may issue a tax deed to the purchaser of the property.

Historical Property Tax Collections and Mill Levies

The following tables include information regarding the assessed valuation of taxable property in the District and District mill levies from the 1990 levy/1991 collection year through the 1995 levy/1996 collection year.

District Mill Levy History

| <u>Levy Year/ Collection Year</u> | <u>General Fund</u> | <u>Bond Redemption Fund</u> | <u>Total Levy</u> |
|---------------------------------------|-------------------------|-------------------------------------|-------------------|
| 1991/1992 | 43.098 | 3.775 | 46.873 |
| 1992/1993 | 43.098 | 3.775 | 46.873 |
| 1993/1994 | 43.098 | 3.775 | 46.873 |
| 1994/1995 | 43.098 | 3.775 | 46.873 |
| 1995/1996 | 43.518 | 3.775 | 47.293 |
| 1996/1997 | 43.183 | 3.775 | 46.958 |

Source: The District.

History of Assessed Valuation

| <u>Levy Year/ Collection Year</u> | <u>Assessed Valuation</u> | <u>Increase or Decrease</u> | <u>Percent Change</u> |
|---------------------------------------|-------------------------------|---------------------------------|---------------------------|
| 1991/1992 | \$4,335,440,170 | --- | -- |
| 1992/1993 | 4,256,372,850 | (79,067,320) | (1.8)% |
| 1993/1994 | 4,223,412,180 | (32,960,670) | (0.8) |
| 1994/1995 | 4,220,924,400 | (2,487,780) | (0.1) |
| 1995/1996 | 4,303,455,930 | 82,531,530 | 2.0 |
| 1996/1997 | 4,402,504,646 | 99,048,710 | 2.3 |

Source: The District.

The following table sets forth the 1996 assessed valuations of specific classes of property within the District as provided by the City and County of Denver Assessor's Office. As shown below, commercial properties account for the largest percentage of the assessed valuation and will accordingly account for the largest percentage of ad valorem property taxes levied by the District.

1996 Assessed Valuation of Classes of Property in the District

| <u>Class</u> | <u>Assessed Valuation⁽¹⁾</u> | <u>Percent of Assessed Valuation</u> | <u>"Actual" Valuation</u> | <u>Percent of "Actual" Valuation</u> |
|-------------------|---|--------------------------------------|---------------------------|--------------------------------------|
| Commercial | 1,474,601,210 | 33.27% | 5,084,831,800 | 19.32% |
| Residential | 1,778,491,960 | 40.13% | 17,166,910,800 | 65.23% |
| State Assessed | 447,879,000 | 10.11% | 1,544,410,300 | 5.87% |
| Industrial | 82,089,020 | 1.85% | 283,065,600 | 1.08% |
| Agricultural | 81,220 | - | 280,100 | - |
| Personal Property | 579,425,830 | 13.07% | 1,998,020,100 | 7.59% |
| Vacant | <u>69,403,950</u> | <u>1.57</u> | <u>239,324,000</u> | <u>.91</u> |
| Total | \$4,431,972,190 | 100.00% | \$26,316,842,700 | 100.00% |

⁽¹⁾ The assessed valuation figures by class are based on preliminary information for 1996; the final total assessed valuation figure for 1996 as certified by the City and County of Denver Assessor was \$4,402,504,646

Source: City and County of Denver Assessor's Office

The following table sets forth a history of the District's ad valorem property tax collections since 1991.

Historical Property Tax Collections

| <u>Levy/ Collection Year</u> | <u>Taxes Levied</u> | <u>Current Tax Collections</u> | <u>Percent of Levy Collected</u> | <u>Delinquent Tax Collections</u> | <u>Total Tax Collections</u> | <u>Percent of Total Tax Collections To Levy</u> |
|--------------------------------------|-------------------------|--|--|---|----------------------------------|---|
| 1990/1991 | \$209,590,967 | \$204,722,289 | 97.68% | \$512,019 | \$205,234,308 | 97.92% |
| 1991/1992 | 203,215,087 | 198,454,190 | 97.66 | (1,256,925) | 197,197,265 | 97.04 |
| 1992/1993 | 199,508,966 | 198,689,620 | 99.59 | 226,525 | 198,916,145 | 99.70 |
| 1993/1994 | 197,963,996 | 192,165,636 | 97.07 | 568,525 | 192,734,161 | 97.36 |
| 1994/1995 | 198,003,047 | 196,002,059 | 98.99 | 30,268 | 196,033,327 | 99.00 |
| 1995/1996 | 203,522,723 | 201,905,263 | 99.21 | 791,449 | 202,696,712 | 99.59 |

Source: The District.

Set forth in the following table are the ten largest taxpayers within the District for the 1995 collection year as provided by the City and County of Denver Assessor's Office. No independent investigation has been made of and no representation is made herein as to the financial condition of any of the taxpayers listed below or that such taxpayers will continue to maintain their status as major taxpayers in the District.

The District's mill levy is uniformly applicable to all of the properties included in the table, and thus taxes expected to be received by the District from such taxpayers will be in proportion to the assessed valuations of the properties. The total tax bill for each of the properties is dependent upon the mill levies of the other taxing entities which overlap the properties.

1996 Ten Largest Taxpayers in the District

| Name | 1996 Assessed Valuation | Percent of Assessed Valuation ⁽¹⁾ |
|------------------------------------|-------------------------------|--|
| U S West | \$135,532,210 | 3.08% |
| Public Service Company of Colorado | 117,235,850 | 2.66 |
| United Airlines | 76,903,500 | 1.75 |
| Columbia - Health One | 55,638,370 | 1.26 |
| Temple Hoyne Buell Co. | 38,122,130 | .87 |
| Republic Plaza Corporation | 34,050,330 | .77 |
| Crescent Real Estate Equities | 33,348,890 | .76 |
| Miller Anschutz Properties, LLC | 30,699,630 | .70 |
| Resources Capital Management | 27,797,600 | .63 |
| AT&T | <u>25,701,710</u> | <u>.58</u> |
| Total | \$575,030,220 | 13.06% |

⁽¹⁾ The total 1996 assessed valuation figure of the District used in computing the above percentages was \$4,402,504,646

Source: City and County of Denver Assessor's Office

Overlapping Mill Levies

Entities located wholly or partially within the District are authorized to levy taxes on property located within the District. According to the City and County of Denver County Assessor's Office there are currently 34 entities overlapping all or a portion of the District. As a result, property owners within the District may be subject to various mill levies depending upon the location of their property. According to the Assessor's Office, the lowest total mill levy imposed in 1995 (for payment in 1996) on a taxpayer owning property located in the District was 81.168 mills and the highest was 178.561 mills. The following table is representative of a sample total 1995 mill levy attributable to taxpayers within the District and is not intended to portray the

mills levied against all properties within the District. See also "DEBT AND OTHER FINANCIAL OBLIGATIONS-Estimated Overlapping General Obligation Debt."

Sample Total 1996 Mill Levy

| <u>Taxing Entity⁽¹⁾</u> | <u>1996 Mill Levy</u> |
|---|-----------------------|
| City and County of Denver | 28.582 |
| Regional Transportation District | 0.000 |
| Urban Drainage and Flood Control District | 0.780 |
| Police and Fireman's Pension | <u>4.506</u> |
| Sample Overlapping Mill Levy | 33.868 |
| School District No. 1 | <u>46.958</u> |
| Sample Total Mill Levy | 80.826 |

⁽¹⁾ One mill equals 1/10 of one cent. Mill levies certified in 1996 are for the collection of ad valorem property taxes in 1997.

Source: City and County of Denver Assessor's Office.

Pension and Benefit Plan

The payroll for employees covered by the Plan for the year ended June 30, 1996 was approximately \$202,000,000. Based upon the funding policy adopted by the Board, employer contribution rates were fixed at 12.5% of payroll effective on and after January 1, 1992, provided that the funding period for unfunded liabilities (including prior service costs) not exceed 30 years. The funding period at January 1, 1996 was 28.4 years.

During the year ended June 30, 1996, the District made contributions totaling approximately \$32,870,000 or 16.27% of covered payroll for the period July 1, 1995 through June 30, 1996. During the same period, employees of the District made contributions totaling approximately \$12,255,000 or approximately 6% of covered payroll.

For additional information concerning the Plan, see Note 8 to the General Purpose Financial Statements of the District for the Fiscal Year Ended June 30, 1996, attached hereto as APPENDIX A. As of January 1, 1996, the date of the latest available actuarial valuation, the market value of the Plan assets was less than the actuarially computed value of vested pension benefits.

Risk Management

The Board acts to protect the District against loss and liability by maintaining property and liability insurance coverages through the Colorado School Districts' Self Insurance Pool (the "Pool"). The Pool was established by the Colorado Association of School Boards to provide insurance coverage to participants in the areas of general liability, errors and omissions, automobile liability, auto physical damage, auto personal injury protection, real and personal property, crime, workers' compensation and other coverage. Each member's contribution is determined by the Pool based on factors including, but not limited to, aggregate Pool claims, the cost of administrative and other operating expenses, the number of participants, the adequacy of both operating and reserve funds and other factors.

See Note 11 of the District's financial statements appended hereto for a further discussion of the District's insurance coverages.

In addition to the insurance coverage described above, the Colorado Governmental Immunity Act provides the District with substantial protection from liability. See the caption "LITIGATION AND GOVERNMENTAL IMMUNITY" herein.

In the opinion of the District's superintendent, the District's insurance coverage described above provides adequate insurance protection for the District. However, there can be no assurance that the District will continue to maintain this level of coverage.

DEBT AND OTHER FINANCIAL OBLIGATIONS

Outstanding Indebtedness

Pursuant to State statute, the total bonded indebtedness of the District cannot exceed the greater of (i) 20% of the latest valuation for assessment of the taxable property in the District, or (ii) 6% of the most recent determination of the actual value of the taxable property in the District, both as certified by the County Assessor. The District's statutory limit on bonded indebtedness is \$1,631,014,248, based upon the District's assessed valuation of \$4,402,504,646 and 1996 "actual" valuation of \$27,183,570,800. The District's current legally available general obligation debt margin under State statutes is \$1,458,129,514.

The following table sets forth the District's outstanding general obligation debt as of June 15, 1997.

Outstanding District Debt as of June 15, 1997

| <u>Obligation</u> | <u>Outstanding Principal Amount</u> |
|--|-------------------------------------|
| General Obligation Bonds, Series 1990 | \$ 10,520,000.00 |
| General Obligation Bonds, Series 1991 | 10,955,000.00 |
| General Obligation Bonds, Series 1992 A & B | 16,100,000.00 |
| General Obligation Refunding Current Interest Bonds, Series 1994 | 124,955,000.00 |
| General Obligation Refunding Premium Capital Appreciation Bonds, Series 1994 | <u>10,354,733.85</u> |
| Total | <u>\$172,884,733.85</u> |

Authorized But Unissued Debt

The District has no authorized but unissued general obligation indebtedness.

The District expects to hold an election in the next several years requesting the authorization to issue additional general obligation bonds to finance the construction of improvements to District facilities. See "THE DISTRICT-District Capital Plans".

Series 1996 Certificates of Participation

On November 6, 1996, \$38,825,000 of the School District No. 1 in the City and County of Denver and State of Colorado Lease Purchase Agreement with Denver School Facilities Leasing Corporation Certificates of Participation Series 1996 (the "Series 1996 Certificates") were executed and delivered pursuant to a Mortgage and Indenture of Trust dated as of October 15, 1996. Proceeds of the Series 1996 Certificates were used to refund, in advance of maturity, certain outstanding certificates of participation and to renovate and equip certain facilities and acquire and construct certain other facilities and equipment for school purposes.

Other Obligations

The District is authorized to finance equipment by means of annually renewable lease-purchase agreements. The District has executed certain lease agreements for financing the acquisition of various equipment. These leases are currently outstanding in the approximate principal amount of \$5,185,000.

The District is also obligated to make annual lease payments to the Lessor (subject to annual appropriation) pursuant to a Restated and Amended Lease Purchase Agreement dated as

of December 1, 1989 (the "1989 Lease"). The total outstanding amount of base rental payments representing principal coming due pursuant to the 1989 Lease is \$13,195,000.

Estimated Overlapping General Obligation Debt

Certain public entities whose boundaries may be entirely within, coterminous with, or only partially within the District are also authorized to incur general obligation debt, and to the extent that properties within the District are also within such overlapping public entities such properties will be liable for an allocable portion of such debt. For purposes of this Official Statement, the percentage of each entity's outstanding debt chargeable to District property owners is calculated by comparing the assessed valuation of the portion overlapping the District to the total assessed valuation of the overlapping entity. To the extent the District's assessed valuation changes disproportionately with the assessed valuation of overlapping entities, the percentage of general obligation debt for which District property owners are responsible will also change. The following table sets forth the estimated overlapping general obligation debt chargeable to properties within the District as of the date of this Official Statement.

Because no single parcel of property located within the District's boundaries is located within every entity shown on the table, the table is not indicative of the actual or potential tax burden upon any single parcel of property located within the District's boundaries. For a description of the highest and lowest actual mill levies levied on property located within the District, see the caption "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Overlapping Mill Levies" herein. The District is not financially or legally obligated with regard to any of the indebtedness shown on the immediately succeeding table.

Although the District has attempted to obtain accurate information as to the outstanding debt of the entities which overlap the District, it does not warrant its completeness or accuracy as there is no central reporting entity which is responsible for compiling this information.

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**Estimated Overlapping General Obligation Debt
as of May 31, 1997**

| <u>Overlapping Entity</u> | <u>Outstanding General Obligation Debt</u> | <u>Percentage Applicable To District</u> | <u>Amount Applicable To District</u> |
|---|--|--|--|
| City & County of Denver ⁽¹⁾ | \$540,049,000 | 100% | \$540,049,000 |
| Denver Suburban Water District | 3,080,000 | 100% | 3,080,000 |
| Fairlake Metropolitan District | 9,015,000 | 100% | 9,015,000 |
| Gateway Village General Improvement District | 850,000 | 100% | 850,000 |
| Goldsmith Metropolitan District | 47,405,147 | 44.05 % | 20,881,967 |
| Grant Water and Sanitation District | 3,740,000 | 14.77 % | 552,398 |
| GVR Metropolitan District | 13,140,000 | 100% | 13,140,000 |
| South Denver Metropolitan District | 4,380,000 | 100% | 4,380,000 |
| Southgate Water District | 10,850,000 | 3.33 % | 361,305 |
| Southwest Commons General Improvement District | <u>1,480,000</u> | 100% | <u>1,480,000</u> |
| Total Overlapping Debt | \$633,508,264 | | \$593,789,670 |

Source: City and County of Denver Assessor's Office and individual entities.

(1) Includes \$243,889,000 in general obligation bonds issued by the City's Water Board.

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General Obligation Debt Ratios

The following are selected District debt ratios.

District Debt Ratios

| | |
|--|------------------|
| District 1996 Certified Assessed Valuation ⁽¹⁾ | \$4,402,504,646 |
| District 1996 Statutory "Actual" Value ⁽¹⁾ | \$27,183,570,800 |
| Estimated Population ⁽¹⁾ | 492,650 |
| District General Obligation Debt Outstanding as of December 15, 1996 ⁽¹⁾ | \$172,884,734 |
| District General Obligation Debt as a Ratio of: | |
| 1996 Assessed Valuation ⁽¹⁾ | 3.93% |
| 1996 Statutory "Actual" Value ⁽¹⁾ | 0.64% |
| District General Obligation Debt Per Capita | \$350.93 |
| Estimated Overlapping General Obligation Debt ⁽¹⁾ | \$593,789,670 |
| Sum of District and Estimated Overlapping Debt | \$766,674,404 |
| District and Estimated Overlapping Debt as a Ratio of: | |
| 1996 Assessed Valuation ⁽¹⁾ | 17.41% |
| 1996 Statutory "Actual" Value ⁽¹⁾ | 2.82% |
| District and Overlapping General Obligation Debt Per Capita | \$1,556.22 |

⁽¹⁾ For definitions of and descriptions of the methodology used in computing assessed valuation, statutory "actual" value, estimated population, general obligation debt outstanding, and estimated overlapping general obligation debt, see "SECURITY FOR THE CERTIFICATES," "FINANCIAL INFORMATION CONCERNING THE DISTRICT," and "DEBT AND OTHER FINANCIAL OBLIGATIONS."

Sources: City and County of Denver Assessor's Office, the District, and individual overlapping entities.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information is provided to give prospective investors an overview of the general economic conditions existing in the area within which the District is located. The statistics presented below have been obtained from the referenced sources and represent the most current information available from such sources. In certain instances, economic and demographic statistics concerning the District have not been compiled by such sources; however, statistical information relating to City & County of Denver and the Denver Metropolitan Statistical Area (the

"DMSA") may be indicative of the general economic condition which exists within the District. The economy of the area is based primarily on manufacturing and retail trade. The statistics have not been adjusted to reflect economic trends, notably inflation. The following information is not to be relied upon as a representation or guarantee of the District, the Lessor or the Underwriters.

Population and Median Age. According to Denver Regional Council of Governments ("DRCOG") statistics, the population of the Denver metropolitan area, which includes the counties of Adams, Arapahoe, Boulder, Denver, Douglas, and Jefferson, increased by approximately 14% during the 1980's. Historically, people have relocated to the Denver area for job opportunities. Economic growth in the DMSA, slowed in the mid-1980's, primarily due to overbuilding of commercial and residential real estate and significant decreases in oil and gas industry activity. However, the emergence of year round tourism and the expansion of high technology research and manufacturing and international trade have contributed to recent economic growth in the DMSA.

The following table sets forth population statistics for the City & County of Denver, the DMSA, and Colorado. The population of the DMSA accounted for approximately 57% of the state's total growth during the 1980's.

| Population | | | | | | |
|-------------|--|---------------------------|-------------|---------------------------|-----------------|---------------------------|
| <u>Year</u> | <u>City & County of Denver</u> | <u>Percent Change</u> | <u>DMSA</u> | <u>Percent Change</u> | <u>Colorado</u> | <u>Percent Change</u> |
| 1950 | 415,786 | -- | 615,635 | -- | 1,325,089 | -- |
| 1960 | 493,887 | 18.8 | 934,199 | 51.8% | 1,753,947 | 32.4% |
| 1970 | 514,678 | 4.2 | 1,238,273 | 32.5 | 2,207,259 | 25.9 |
| 1980 | 492,694 | (4.4) | 1,618,461 | 30.7 | 2,889,964 | 30.9 |
| 1990 | 467,610 | (5.1) | 1,848,319 | 14.2 | 3,294,394 | 14.0 |
| 1997 | 500,000 | 6.9 | 2,173,750 | 17.6 | N/A | N/A |

Source: U.S. Department of Commerce, Bureau of the Census; 1997 figures were obtained from Denver Regional Council of Governments estimates.

According to the United States Census Bureau, the City & County of Denver's median age in 1980 was 30.4 years as compared with 33.9 years in 1990. The State's median age for the same period increased from 28.6 years in 1980 to 32.5 years in 1990, with the median age of the United States being 30 and 33 years in 1980 and 1990, respectively.

Income. The following tables set forth historical median household effective buying income, the percentage of households by classification of effective buying income ("EBI") levels, and per capita personal income. The county's per capita income level over the five year period shown has consistently been lower than the state levels.

Median Household Effective Buying Income

| | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995⁽¹⁾</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|---------------------------|
| City & County of Denver | \$24,810 | \$26,379 | \$26,845 | \$28,677 | \$30,287 | \$26,350 |
| DMSA | 32,630 | 35,648 | 35,861 | 38,530 | 40,587 | 35,131 |
| Colorado | 28,558 | 32,129 | 32,758 | 34,797 | 36,770 | 31,797 |
| United States | 27,912 | 32,073 | 33,178 | 35,056 | 37,070 | 32,238 |

⁽¹⁾ Because the 1995 statistics use a definition of EBI based on "Money Income" and earlier years used a definition based on "Personal Income", 1995 EBI is not directly comparable with earlier years.

Source: "Survey of Buying Power," *Sales & Marketing Management*, 1991-1996

Percent of Households by Effective Buying Income Groups - 1995

| | <u>Less than \$20,000</u> | <u>\$20,000- \$34,999</u> | <u>\$35,000- \$49,999</u> | <u>\$50,000- and Over</u> |
|-------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| City & County of Denver | 37.8% | 25.8% | 15.9% | 20.5% |
| DMSA | 25.7 | 24.1 | 19.6 | 30.6 |
| Colorado | 29.6 | 25.3 | 18.7 | 26.4 |

Source: "Survey of Buying Power," *Sales & Marketing Management*, September 1996

Per Capita Personal Income

| | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| City & County of Denver | \$22,178 | \$23,240 | \$24,610 | \$25,541 | \$26,466 | N/A |
| Colorado | 18,816 | 19,746 | 20,591 | 21,500 | 22,329 | \$23,961 |
| United States | 18,665 | 19,248 | 20,261 | 20,915 | 21,696 | 23,208 |

Source: Colorado Division of Local Government, Demographic Section

Building Permit Activity in the City & County of Denver

| Year | Commercial ⁽¹⁾ | | Industrial | | Single Family | | Duplex | | Multi-Family | |
|---------------------|---------------------------|---------------|------------|-------------|---------------|--------------|--------|-------------|--------------|-------------|
| | Permit | Valuation | Permit | Valuation | Permit | Valuation | Permit | Valuation | Permit | Valuation |
| 1991 | 628 | \$210,922,398 | 4 | \$1,564,533 | 219 | \$20,341,649 | 42 | \$3,826,447 | 36 | \$6,380,530 |
| 1992 | 736 | 295,220,051 | 11 | 6,441,575 | 286 | 30,354,914 | 18 | 2,777,690 | 25 | 6,503,679 |
| 1993 | 793 | 164,183,198 | 2 | 669,000 | 332 | 38,914,243 | 32 | 3,970,174 | 73 | 22,693,914 |
| 1994 | 917 | 76,779,579 | 13 | 5,786,087 | 544 | 56,148,628 | 41 | 4,191,300 | 82 | 43,445,962 |
| 1995 | 857 | 41,275,515 | 10 | 6,208,172 | 467 | 43,023,090 | 20 | 1,903,512 | 69 | 24,055,426 |
| 1996 | 920 | 96,283,707 | 14 | 17,174,163 | 753 | 72,648,366 | 62 | 6,390,526 | 64 | 33,475,897 |
| 1997 ⁽²⁾ | 371 | 28,302,317 | 10 | 4,402,907 | 424 | 52,628,829 | 32 | 2,995,690 | 20 | 13,418,154 |

⁽¹⁾Inclusive of Industrial totals

⁽²⁾Building permits issued through May 31, 1997.

Source: City & County of Denver Building & Zoning Department

Foreclosure Activity. As set forth in the following table, there has been a significant decrease in the number of foreclosures filed in City & County of Denver over the past five years.

History of Foreclosures

| <u>Year</u> | <u>Number of Foreclosures Filed</u> | <u>Percent Change</u> |
|---------------------|---|-----------------------|
| 1991 | 2,498 | -- |
| 1992 | 1,692 | (32.3) |
| 1993 | 1,247 | (26.3) |
| 1994 | 861 | (30.9) |
| 1995 | 711 | (17.4) |
| 1996 | 700 | (1.6) |
| 1997 ⁽¹⁾ | 384 | -- |

⁽¹⁾ Foreclosures filed through May 31, 1997.

Source: City & County of Denver Public Trustee

Retail Sales. The retail trade sector employs a large portion of the county's work force and is important to the area's economy. The following table sets forth retail sales figures as reported by the state for City & County of Denver and Colorado.

Retail Sales (\$100)

| <u>Year</u> | <u>City & County of Denver</u> | <u>Percent Change</u> | <u>Colorado</u> | <u>City & County of Denver as Percentage of Colorado</u> |
|-------------|--|---------------------------|-----------------|--|
| 1990 | \$8,373,224 | -- | \$45,292,872 | 18.5% |
| 1991 | 9,409,501 | 12.4 | 48,970,094 | 19.2 |
| 1992 | 10,578,182 | 12.4 | 53,868,059 | 19.6 |
| 1993 | 11,699,462 | 10.6 | 59,042,680 | 19.8 |
| 1994 | 12,575,074 | 7.5 | 65,650,512 | 19.2 |
| 1995 | 13,030,241 | 3.6 | 69,382,293 | 18.8 |
| 1996 | 13,222,425 | 1.5 | 74,306,542 | 17.8 |

Source: State of Colorado, Department of Revenue, *Sales Tax Statistics*, 1990-1996

Employment. The following tables set forth employment statistics by industry and the most recent historical labor force estimates for the City & County of Denver. As indicated in the following table, during 1995 services was the largest employment sector within the County, accounting for 41% of the "economic units" or business establishments in the City and County and 32% of the total average employment. The next largest employment sectors were government and retail trade employing 15% and 14%, respectively of the total average employment.

Total Business Establishments and Employment - City & County of Denver

| <u>Industry⁽¹⁾</u> | Year Ended <u>December 31, 1994</u> | | Year Ended <u>December 31, 1995</u> | | <u>12-Month Change</u> | |
|--|--|---------------------------|--|---------------------------|------------------------|---------------------------|
| | <u>Units</u> | <u>Average Employment</u> | <u>Units</u> | <u>Average Employment</u> | <u>Units</u> | <u>Average Employment</u> |
| Agriculture, Forestry & Fisheries | 178 | 1,393 | 181 | 1,218 | 3 | (175) |
| Mining | 365 | 5,388 | 369 | 4,846 | 4 | (542) |
| Construction | 1,213 | 14,312 | 1,264 | 14,359 | 51 | 47 |
| Manufacturing | 1,144 | 32,360 | 1,120 | 32,963 | (24) | 603 |
| Transportation, Communication & Public Utilities | 703 | 38,523 | 751 | 37,282 | 48 | (1,241) |
| Wholesale Trade | 2,596 | 32,407 | 2,653 | 33,500 | 57 | 1,093 |
| Retail Trade | 3,404 | 53,747 | 3,497 | 56,268 | 93 | 2,521 |
| Finance, Insurance & Real Estate | 2,582 | 34,542 | 2,636 | 35,058 | 54 | 516 |
| Services | 8,619 | 128,164 | 8,933 | 133,516 | 314 | 5,666 |
| Nonclassifiable | 66 | 66 | 38 | 31 | (28) | (35) |
| Government | <u>197</u> | <u>64,296</u> | <u>177</u> | <u>62,665</u> | <u>(20)</u> | <u>(1,631)</u> |
| Total | 21,067 | 405,198 | 21,619 | 411,706 | 552 | 6,822 |

⁽¹⁾ Information provided herein reflects only those employers who are subject to state unemployment insurance law.
Source: State of Colorado, Division of Employment and Training, *Colorado Employment and Wages Covered by Unemployment Insurance*

Unemployment rates have generally been decreasing since 1992 in the City & County of Denver, the DMSA, as well as throughout the State.

Labor Force Estimates

| Year | City & County of Denver | | DMSA | | Colorado | |
|------|-------------------------|--------------|-------------|--------------|-------------|--------------|
| | Labor Force | % Unemployed | Labor Force | % Unemployed | Labor Force | % Unemployed |
| 1990 | 252,190 | 5.5 | 913,523 | 4.5 | 1,764,173 | 5.0 |
| 1991 | 251,142 | 5.5 | 919,363 | 4.4 | 1,781,764 | 5.1 |
| 1992 | 254,974 | 6.6 | 936,303 | 5.3 | 1,819,606 | 6.0 |
| 1993 | 262,612 | 6.0 | 973,516 | 4.8 | 1,900,187 | 5.3 |
| 1994 | 269,178 | 5.0 | 1,018,135 | 3.9 | 1,999,316 | 4.2 |
| 1995 | 278,883 | 4.8 | 1,055,337 | 3.8 | 2,088,993 | 4.2 |
| 1996 | 281,085 | 4.5 | 1,064,597 | 3.5 | 2,118,291 | 3.9 |

Source: State of Colorado, Division of Employment and Training, Labor Market Information, *Colorado Labor Force Review*

The following table sets forth selected major employers in the Denver metropolitan area. No independent investigation has been made of and there can be no representation as to the stability or financial condition of the entities listed below, or the likelihood that they will maintain their status as major employers in the metro area.

Selected Major Employers in the Denver Metropolitan Area¹

| <u>Firm</u> | <u>Product or Service</u> | <u>Estimated Number of Employees</u> |
|-------------------------------------|-------------------------------|--------------------------------------|
| US West (all operations) | Telecommunications | 15,140 |
| Columbia-HealthONE (all operations) | Healthcare | 10,400 |
| US WEST Communications | Telecommunications | 10,140 |
| King Soopers Inc. | Retail food | 8,960 |
| Lockheed Martin | Aerospace | 7,500 |
| Columbia | Healthcare | 7,200 |
| United Airlines | Airline | 7,000 |
| Lucent Technologies | Telecommunications | 5,650 |
| IBM Corporation (all operations) | Computer Software and Systems | 5,050 |
| Coors Brewing Company | Brewer | 5,000 |

(1) As of October, 1996.

Source: Metro Denver Chamber of Commerce

TAX MATTERS

NO ATTEMPT HAS BEEN MADE OR WILL BE MADE TO COMPLY WITH CERTAIN REQUIREMENTS RELATING TO THE EXCLUSION FROM GROSS INCOME FOR FEDERAL OR COLORADO INCOME TAX PURPOSES OF THE PORTION OF BASE RENTALS WHICH IS DESIGNATED IN THE LEASE AND PAID BY THE DISTRICT AS INTEREST ON THE CERTIFICATES. SUCH INTEREST IS INCLUDABLE IN GROSS INCOME OF THE OWNERS THEREOF FOR FEDERAL AND COLORADO INCOME TAX PURPOSES.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

General

The following discussion is a summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of the Certificates by original purchasers of the Certificates. This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Certificates will be held as "capital assets" under the Code, and it does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Certificates as a position in a "hedge" or "straddle" for United States federal income tax purposes, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar. Each prospective purchaser of the Certificates should consult with its own tax advisor concerning the United States federal income and other tax consequences to it of the acquisition, ownership and disposition of the Certificates as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Payment of Interest.

Except as set forth below, interest on a Certificate will be taxable to a Certificate Owner as ordinary interest income at the time it accrues or is received, in accordance with the Certificate Owner's method of accounting for tax purposes. Special rules governing the treatment of Fixed Rate Certificates issued at an original issue discount are described under "Original Issue Discount" below.

Original Issue Discount.

A Certificate which has an "issue price" of less than its "stated redemption price at maturity" generally will be issued at an original issue discount for federal income tax purposes. The issue price of a Certificate generally is the first price at which a substantial amount of all of the Current Interest Certificates of the same maturity or all of the Capital Appreciation Certificates of the same maturity are sold to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers). The "stated redemption price at maturity" is the total amount of all payments provided by the Certificate other than "qualified stated interest" payments; qualified stated interest generally is stated interest that is unconditionally payable at least annually. Qualified stated interest will be taxable to a Certificate Owner when accrued or received in accordance with such Certificate Owner's method of tax accounting. A Certificate generally will be considered to have *de minimis* original issue discount if the excess of its stated redemption price at maturity over its issue price is less than the product of 0.25 percent of the stated redemption price at maturity and the number of complete years to maturity (or the "weighted average maturity" in the case of a Certificate that provides for payment of an amount

other than qualified stated interest before maturity). Certificate Owners of Certificates having *de minimis* original issue discount generally must include a proportionate amount of *de minimis* original issue discount in income as each payment of stated principal is made as a payment received in retirement of the Certificates.

Certificate Owners of Certificates issued at an original issue discount that is not *de minimis* original issue discount and that mature more than one year from the date of issuance will be required to include such original issue discount in gross income for federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income. Original issue discount accrues based on a compounded, constant yield to maturity; accordingly, Certificate Owners of Certificates issued at an original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods. The annual amount of original issue discount includable in income by the initial Certificate Owner of a Certificate issued at an original issue discount will equal the sum of the daily portions of the original issue discount with respect to the Certificate for each day on which such Certificate Owner held the Certificate during the taxable year. Generally, the daily portions of the original issue discount are determined by allocating to each day in an accrual period the ratable portion of the original issue discount allocable to such accrual period. The term "accrual period" means any interval of time with respect to which the accrual of original issue discount is measured, and which may vary in length over the term of the Certificate provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the beginning or end of an accrual period. The amount of original issue discount allocable to an accrual period will be the excess of (a) the product of the "adjusted issue price" of the Certificate at the commencement of such accrual period and its "yield to maturity" over (b) the amount of any qualified stated interest payments allocable to the accrual period. The "adjusted issue price" of the Certificate at the beginning of the first accrual period is its issue price, and, on any day thereafter, it is the sum of the issue price and the amount of the original issue discount previously includable in the gross income of any Certificate Owner (without regard to any acquisition premium), reduced by the amount of any payment other than a payment of qualified stated interest previously made with respect to the Certificate. The Treasury Regulations under Code sections 1271 through 1275 provide a special rule for determining the original issue discount allocable to an accrual period if an interval between payments of qualified stated interest contains more than one accrual period. The "yield to maturity" of the Certificate is computed on the basis of a constant interest rate, compounding at the end of each accrual period, taking into account the length of the particular accrual period. If all accrual periods are of equal length except for an initial or an initial and final shorter accrual period(s), the amount of original issue discount allocable to the initial period may be computed using any reasonable method; the original issue discount allocable to the final accrual period is in any event the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

The Capital Appreciation Certificates make no "qualified stated interest" payments; all interest on such Certificates accrues on an original discount method. Certain of the Current Interest Certificates are being issued at a *de minimis* original issue discount.

Premium and Market Discount.

If a Certificate Owner purchases a Certificate for an amount that is less than the Certificates' stated redemption price at maturity, or, in the case of a Certificate issued at an original issue discount, less than its adjusted issue price (as defined above) as of the date of purchase, the amount of the difference generally will be treated as "market discount" for federal income tax purposes. A Certificate acquired at its original issue will not have market discount unless the Certificate is purchased at less than its issue price. Market discount generally will be *de minimis* and hence disregarded, however, if it is less than the product of 0.25 percent of the stated redemption price at maturity of the Certificates and the number of remaining complete years to maturity (or weighted average maturity in the case of Capital Appreciation Certificates). Under the market discount rules, a Certificate Owner is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Certificate as ordinary income to the extent of any accrued market discount which has not previously been included in income. If such Certificate is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includable as ordinary income to the Certificate Owner as if such Certificate Owner had sold the Certificate at its then fair market value. In addition, the Certificate Owner may be required to defer, until the maturity of the Certificate or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Certificate.

Market discount is considered to accrue ratably during the period from the date of acquisition to the maturity of a Certificate, unless the Certificate Owner elects to accrue on a constant yield basis. A Certificate owner of a Certificate may elect to include market discount in income currently as it accrues (on either a ratable or constant yield basis), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount currently applies to all market discount obligations acquired during or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service (the "IRS").

A Certificate Owner who purchases a Certificate issued at an original issue discount for an amount exceeding its adjusted issue price (as defined above) and less than or equal to the sum of all amounts payable on the Certificate after the purchase date other than payments of qualified stated interest will be considered to have purchased such Certificate with "acquisition premium." The amount of original issue discount which such Certificate Owner must include in gross income with respect to such Certificate will be reduced in the proportion that such excess bears to the original issue discount remaining to be accrued as of the Certificate's acquisition.

A Certificate Owner who acquires a Certificate for an amount that is greater than the sum of all amounts payable on the Certificate after the purchase date other than payments of qualified stated interest will be considered to have purchased such Certificate at a premium, and will not be required to include any original issue discount in income. A Certificate Owner generally may elect to amortize such premium using a constant yield method over the remaining term of the Certificate. Any such election shall apply to all debt instruments (other than debt instruments the

interest on which is excludable from gross income) held at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without consent of the IRS. Special rules may apply if a Certificate is subject to call prior to maturity at a price in excess of its stated redemption price at maturity.

Constant Yield Election

A Certificate Owner of a Certificate may elect to include in income all interest, discount and premium with respect to such Certificate based on a constant yield method, as described above. The election is made for the taxable year in which the Certificate Owner acquires the Certificate, and it may not be revoked without the consent of the IRS. If such election is made with respect to a Certificate having market discount, such Certificate Owner will be deemed to have elected to include market discount in gross income currently on a constant yield basis with respect to all debt instruments having market discount acquired during the year of election or thereafter. If made with respect to a Certificate having amortizable bond premium, such Certificate Owner will be deemed to have made an election to amortize premium generally with respect to all debt instruments having amortizable bond premium held by the taxpayer during the year of election or thereafter.

Sale and Retirement of the Certificates

Upon the sale, exchange or retirement of a Certificate, a Certificate Owner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Certificate Owner's adjusted tax basis in the Certificate. Such gain or loss generally will be capital gain or loss, except to the extent of any accrued market discount (see "Premium and Market Discount" above), and such capital gain or loss will generally be long term capital gain or loss if the Certificate has been held for more than one year. A Certificate Owner's adjusted tax basis in a Certificate will equal the cost of the Certificate, increased by any original issue discount or market discount previously includable in taxable income by the Certificate Owner with respect to such Certificate, and reduced by any amortizable bond premium applied to reduce interest on a Certificate, any principal payments received by the Certificate Owner, and in the case of Capital Appreciation Certificates, any other payments not constituting qualified stated interest (as defined above).

The Code provides preferential treatment under certain circumstances for net long-term capital gains realized by individual investors. The ability of United States Certificate Owners to offset capital losses against ordinary income is limited.

Backup Withholding and Information Reporting

A 31 percent "backup" withholding tax and certain information reporting requirements may apply to payments of principal, premium and interest (including any original issue discount) made to, and the proceeds of disposition of a Certificate by, certain Certificate Owners. Backup

withholding will apply only if (i) the Certificate Owner fails to furnish its Taxpayer Identification Number ("TIN") to the payor, (ii) the IRS notified the payor that the Certificate Owner has furnished an incorrect TIN, (iii) the IRS notified the payor that the Certificate Owner has failed to report properly payments of interest and dividends or (iv) under certain circumstances, the Certificate Owner fails to certify, under penalty of perjury, that it has both furnished a correct TIN and not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and financial institutions. Certificate Owners should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

The amount of any backup withholding from a payment to a Certificate Owner will be allowed as a credit against such Certificate Owner's federal income tax liability and may entitle such Certificate Owner to a refund, provided that the required information is furnished to the IRS.

Non-United States Certificate Owners

A "non-United States Certificate Owner" is any person other than (i) a citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States, any state thereof or the District of Columbia, or (iii) an estate or trust the income of which is includable in gross income for United States federal income tax purposes regardless of its source. A non-United States Certificate Owner generally will not be subject to United States federal withholding tax with respect to payments of interest on Certificates, provided that the beneficial owner of the Certificate certifies under penalties of perjury as to its status as a non-United States Certificate Owner and complies with applicable identification procedures. In certain circumstances, the above-described certification can be provided by a bank or other financial institution.

In addition, a non-United States Certificate Owner generally will not be subject to United States federal income tax on any gain realized upon the sale, retirement or other disposition of a Certificate, unless such Certificate Owner is an individual who is present in the United States for 183 days or more during the taxable year of such sale, retirement or other disposition and certain other conditions are met. If a non-United States Certificate Owner is engaged in a trade or business in the United States and income or gain from the Certificate is effectively connected with the conduct of such trade or business, the non-United States Certificate Owner will be exempt from withholding tax if appropriate certification has been provided, but will generally be subject to regular United States income tax on such income and gain in the same manner as if it were a United States Certificate Owner. In addition, if such non-United States Certificate Owner is a foreign corporation, it may be subject to a branch profits tax equal to 30 percent of its effectively connected earnings and profits for the taxable year, subject to adjustments.

Backup withholding will not apply to payments of principal, premium, if any, and interest made to a non-United States Certificate Owner by the District on a Certificate with respect to which the Certificate Owner has provided the required certification under penalties of perjury of

its non-United States Certificate Owner status or has otherwise established an exemption, provided in each case that the District or its paying agent, as the case may be, does not have actual knowledge that the payee is a United States person. Payments on the sale, exchange or other disposition of a Certificate by a non-United States Certificate Owner to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a United States person, a controlled foreign corporation for United States tax purposes or a foreign person 50 percent or more of whose gross income is derived from its conduct of a United States trade or business for a specified three-year period, information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States person and certain other conditions are met or the beneficial owner otherwise establishes an exemption. Payment to or through the United States office of a broker will be subject to backup withholding and information reporting unless the Certificate Owner certifies under penalties of perjury to its non-United States Certificate Owner status or otherwise establishes an exemption.

Non-United States Certificate Owners should consult their tax advisors regarding the application of United States federal income tax laws, including information reporting and backup withholding, to their particular situations.

ERISA CONSIDERATIONS

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), prohibit employee benefit plans ("Plans") subject to ERISA or the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA and prohibits certain transactions between a Plan and "parties in interest" with respect to such Plans. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not here relevant). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and parties in interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered a "disqualified person" within the meaning of ERISA or a "party in interest" within the meaning of the Code, with respect to certain employee benefit plans. Prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Certificates are acquired by a Plan with respect to which any of the Underwriters, or any of their respective affiliates, is a "disqualified person" or "party in interest." Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Certificate and the circumstances under which such decision is made. Included among these exemptions are PTE 75-1, regarding securities purchased during the existence of an underwriting; PTE 90-1, regarding investments by insurance company separate accounts; PTE 95-60, regarding investments by insurance company

general accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; and PTE 96-23, regarding transactions affected by an "in-house asset manager." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA and the Code will take place in connection with the acquisition of a Certificate by or on behalf of a Plan, each prospective purchaser of a Certificate who is a Plan or is acquiring on behalf of a Plan will be deemed to represent that either (i) no prohibited transactions under ERISA and the Code will occur in connection with the acquisition of such Certificate or (ii) the acquisition of such Certificate is subject to a statutory or administrative exemption.

Any Plan fiduciary which proposes to cause a Plan to purchase Certificatesshould consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Certificates is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

Pursuant to the requirements of Section (b)(5)(i) of the Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the District has covenanted in a Continuing Disclosure Agreement dated as of July 1, 1997 between the District and Bank One, Colorado, N.A. (the "Disclosure Agreement") for the benefit of the Owners of the Certificates to provide certain financial information and other operating data (the "Undertaking") to nationally recognized municipal securities information repositories. A copy of the Disclosure Agreement is set forth in APPENDIX B hereto.

The District's Undertaking contained in the Disclosure Agreement is its first such undertaking under the Rule. A failure by the District to comply with the Undertaking will not constitute an Event of Default under the Lease or the Indenture (although Certificate Owners will have the remedy of specific performance). Nevertheless, such a failure 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 Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

RATINGS

Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Investors Service, Inc. ("Fitch") have each assigned their municipal bond ratings as set forth on the cover hereof on the understanding that the Policy of Insurance will be issued by the Certificate Insurer upon the delivery of the Certificates with the terms and conditions described herein. Such ratings reflect only the view of the rating agencies and any desired explanation of the significance of such ratings should be obtained from S&P at 25 Broadway, New York, New York 10004, from Moody's at 99 Church Street, New York, New York 10007, and from Fitch at One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings indicated above may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being sold at a price of \$380,617,105.68 (par minus underwriters' discount of \$2,366,239.87 and less original issue discount of \$1,184,175.00), plus accrued interest of \$1,039,285.69, to the Underwriters pursuant to a purchase contract entered into between those firms, the District and the Lessor. Pursuant to such purchase contract, all of the Certificates must be taken and paid for if any are taken, and the Underwriters' obligation to purchase the Certificates is subject to certain conditions.

The prices at which the Certificates are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover page of this Official Statement. In addition, the Underwriters may allow concessions or discounts from such initial offering prices to dealers and others. In connection with the offering of the Certificates, the Underwriters also may effect transactions that stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

FINANCIAL STATEMENTS

The General Purpose Financial Statements of the District for the fiscal year ended June 30, 1996, included in APPENDIX A hereto, have been audited by Deloitte & Touche LLP, Independent Auditors as stated in their report appearing therein.

LITIGATION AND GOVERNMENTAL IMMUNITY

Upon the issuance of the Certificates, Michael H. Jackson, Esq., counsel to the District, will deliver an opinion to the effect that there is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending, or, to his knowledge, threatened against or affecting the District, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Lease, the Indenture, the Certificate Purchase Agreement, or the Official Statement or the validity and enforceability of the Lease, the Indenture, the Certificate Purchase Agreement, the Escrow Agreement or the Certificates.

The Colorado Governmental Immunity Act, C.R.S. Article 10, Title 24 (the "Act"), provides, in part, that public entities will be immune from liability, based on the principle of sovereign immunity, in all claims for injury which lie in tort or could lie in tort (regardless of the type of action or the form of relief chosen by the claimant), except for certain claims specifically excluded by the Act. These exceptions include claims resulting from: (a) the operation, by a public employee during the course of his or her employment, of a motor vehicle which is owned or leased by a public entity; (b) the operation by a public entity of a public hospital, correctional facility or jail; (c) a dangerous condition of a public building or public facility operated by a public entity, including a public water, gas sanitation, electrical, power or swimming facility; (d) a dangerous condition of a public highway, road or street which physically interferes with the movement of traffic; or (e) the operation and maintenance by a public entity of any public water, gas, sanitation, electrical, power or swimming facility. The Act defines "dangerous condition" as a physical condition or use which constitutes an unreasonable risk to the health or safety of the public which is known to exist and which is proximately caused by the negligent act or omission of the public entity. The maximum amount that may be recovered in any single occurrence on a claim based on one of the exceptions to the Act is limited to \$150,000 for injury to one person and \$600,000 for an injury to two or more persons. The Act holds public entities liable for the costs of defense, payment of judgments, and settlement of claims against any of its public employees, but relieves public entities of such liability if a court determines that the injuries did not arise out of an act or omission of the employee which occurred during the performance of the employee's duties and within the scope of the employee's employment or that the act or omission was willful and wanton. The Act also specifies the sources from which judgments against public entities may be collected and provides that public entities are not liable either directly or by indemnification for punitive or exemplary damages or for damages for outrageous conduct, except as may be otherwise determined by a public entity pursuant to the Act. Pursuant to the Act a public entity may prospectively waive its immunity. The District has not so waived its immunity and, according to District officials, has no plans to do so. The Act may be changed through amendment by the State Legislature at any time.

Aside from liability for certain tortious actions, as described above, the District may also be subject to civil liability for actions under various federal or State laws. Examples of potential federal civil liability include suits filed pursuant to 42 U.S.C. § 1983 alleging the deprivation of federal constitutional or statutory rights of an individual, and suits alleging anticompetitive

practices and violation of antitrust laws by the District except in the exercise of its delegated powers. Examples of potential civil liability under State laws include actions related to the District's contractual obligations, such as employment contracts, capital construction contracts and lease contracts.

According to officials of the District, the District is not currently a party to any pending lawsuits which, if decided adversely to the interests of the District, would have a material adverse effect on the financial condition or operations of the District.

Pursuant to State statute, if a monetary judgment is rendered against the District, and the District fails to provide for the payment of such judgment, the Board must levy a tax (not to exceed 10 mills per annum) upon all of the taxable property within the District for the purpose of making provision for the payment of the judgment. The District must continue to levy such tax until the judgment is discharged. Such mill levy is in addition to all other mill levies for other purposes. Due to the passage of Amendment One at the November 3, 1992 general election, the authority of the District to levy such tax without voter approval is questionable. See the caption "AMENDMENT ONE" herein.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the status of interest thereon under existing laws are subject to the approving opinion of Sherman & Howard L.L.C., as Special Counsel. Certain legal matters will also be passed upon for the District and the Lessor by Michael H. Jackson, Esq., and for the Underwriters by their co-counsel, Brownstein Hyatt Farber & Strickland, P.C. and Tate & Tate, P.C.

AMENDMENT ONE

On November 3, 1992, Colorado voters approved an amendment to the Colorado Constitution, which is commonly referred to as the Taxpayer's Bill of Rights, or Amendment One, and now constitutes Section 20 of Article X of the Colorado Constitution. Amendment One imposes various limits and new requirements on the State of Colorado and all Colorado local governments which do not qualify as "enterprises" under Amendment One (each of which is referred to in this section as a "governmental unit"). Any of the following actions, for example, now requires voter approval in advance: (i) any increase in a governmental unit's spending from one year to the next in excess of the rate of inflation plus a "growth factor" based on (A) for the State, the percentage change in State population, (B) for a school district, the percentage change in student enrollment, and (C) for any other local government, the net percentage change in actual value of all real property from construction of taxable real property improvements, minus destruction of similar improvements, and additions to, minus deletions from, taxable real property; (ii) any increase in the real property tax revenues of a local governmental unit (not including the state) from one year to the next in excess of inflation plus the appropriate "growth factor" referred

to in (i) above; (iii) any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, extension of an expiring tax or a tax policy change directly causing a net tax revenue gain; and (iv) except for refinancing bonded indebtedness at a lower interest rate or adding new employees to existing pension plans, creation of any multiple-fiscal year direct or indirect debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years. Elections on such matters may only be held on the same day as a state general election, at the governmental unit's regular biennial election or on the first Tuesday in November of odd-numbered years, and must be conducted in accordance with procedures described in Amendment One.

Revenue collected, kept or spent in violation of the provisions of Amendment One must be refunded, with interest. Amendment One requires a governmental unit to create an emergency reserve of 3% of its fiscal year spending in 1995 and subsequent years. Amendment One provides that "[w]hen [a governmental unit's] annual . . . revenue is less than annual payments on general obligation bonds, pensions, and final court judgments, the [voter approval requirement for mill levy and other tax increases referred to in clause (iii) of the preceding paragraph and the voter approval requirement for spending and real property tax revenue increases referred to in clauses (i) and (ii) of the preceding paragraph] shall be suspended to provide for the deficiency." The preferred interpretation of Amendment One shall, by its terms, be the one that reasonably restrains most the growth of government.

In the opinion of Special Counsel, the Certificates may be issued and the Lease may be entered into without an election under Amendment One because the District's payment obligations under the Lease are subject to annual appropriation by the District and therefore do not constitute a "multiple-fiscal year direct or indirect debt or other financial obligation" based on the Colorado Court of Appeal's decision in *The Board of County Commissioners of Boulder County v. Dougherty, Dawkins, Strand & Bigelow, Incorporated*, 890 P.2d 199 (Colo. App. 1994). Nevertheless, Base Rentals and Additional Rentals payable by the District remain subject to the Amendment One spending limitations.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Prospective Certificate purchasers are also cautioned that the accuracy of any demographic or economic projection contained herein is not guaranteed and therefore investors are urged to consult their own advisors concerning such projections. This Official Statement is not to be construed as a contract or agreement between the District, the Lessor and the purchasers or registered owners of any of the Certificates.

AUTHORIZATION OF OFFICIAL STATEMENT

This Official Statement, and its distribution and use in connection with the sale of the Certificates, have been duly authorized and approved by the District and the Lessor.

SCHOOL DISTRICT NO. 1 IN THE
CITY AND COUNTY OF DENVER AND STATE
OF COLORADO

By /s/ Susan Edwards
President of the Board of Education

DENVER SCHOOL FACILITIES LEASING
CORPORATION

By /s/ Omar Blair
President

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APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 1996

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Deloitte & Touche LLP



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Denver, Colorado 80202-3942

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
School District No. 1 in the
City and County of Denver and
State of Colorado

We have audited the accompanying general purpose financial statements of School District No. 1 in the City and County of Denver and State of Colorado (the School District) as of June 30, 1996, and for the year then ended. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the School District at June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types and similar trust funds for the year then ended in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

November 19, 1996

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GENERAL PURPOSE FINANCIAL STATEMENTS

**SCHOOL DISTRICT NO. 1
IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO**

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1996

| | Governmental Fund Types | | | |
|--|--------------------------------|------------------------|------------------------|-------------------------|
| | General | Special Revenue | Bond Redemption | Capital Projects |
| ASSETS AND OTHER DEBITS | | | | |
| Cash and cash equivalents | \$ 2,437,049 | \$ 4,752,746 | \$ 75,359 | \$ 97,973 |
| Restricted investment in securities | | | | 5,647,524 |
| Restricted cash | 22,033,111 | 1,612,570 | 19,605,008 | 2 |
| Investments | | | | 12,825,139 |
| Receivables: | | | | |
| Taxes | 9,054,675 | | 663,251 | |
| Accounts | 3,430,054 | 5,893,729 | | |
| Notes | | | | 234,262 |
| Interest | 183,572 | 27,823 | 64,078 | 69,614 |
| Due from other funds | 8,133,506 | 356,946 | | 741,062 |
| Inventory | 728,088 | | | |
| Land, buildings and equipment (net, where applicable, of accumulated depreciation) | | | | |
| Other debits: | | | | |
| Amount available for the retirement of long-term debt | | | | |
| Amount to be provided for retirement of: | | | | |
| Other long-term obligations (capital leases and sick leave) | | | | |
| Certificates of participation | | | | |
| Bonds payable | | | | |
| TOTAL | \$ 46,000,055 | \$ 12,643,814 | \$ 20,407,696 | \$ 19,615,576 |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 6,567,219 | \$ 888,717 | \$ 4,925 | \$ 3,613,948 |
| Rebates payable | 6,450,463 | 313,807 | | 639 |
| Accrued payroll | | | | |
| Health insurance claims incurred but not paid | | | | |
| Accrued salaries earned but unpaid | 35,066,407 | 2,977,133 | | 24,625 |
| Accrued claims | | | | |
| Liabilities payable from restricted assets | | | | |
| Due to other funds | 1,073,220 | 6,160,744 | 104,009 | 416,586 |
| Deferred revenue | 3,358,852 | 2,006,971 | 291,366 | |
| Capitalized lease obligations | | | | |
| Certificates of participation | | | | |
| Sick leave payable | | | | |
| Bonds payable | | | | |
| Due to student groups | | | | |
| Total liabilities | 52,516,161 | 12,347,372 | 400,300 | 4,055,798 |
| COMMITMENTS AND CONTINGENCIES (Notes 7 and 11) | | | | |
| Equity (deficit) and other credits: | | | | |
| Contributed capital | | | | |
| Retained earnings (deficit) unreserved | | | | |
| Investment in general fixed assets | | | | |
| Fund balance/(deficit): | | | | |
| Reserved for: | | | | |
| Trust activities | 3,713,723 | 769,821 | | 3,531,436 |
| Encumbrances | | | | 234,262 |
| Notes receivable | | | | |
| Inventory | 728,088 | | | |
| Principal and interest on bonds payable | | | 20,007,396 | |
| Emergency reserve | 9,300,000 | | | 1,000,000 |
| Unreserved: | | | | |
| Designated for subsequent year's expenditures | | | | 10,794,080 |
| Undesignated (deficit) | (20,257,917) | (473,379) | | |
| Total equity (deficit) and other credits | (6,516,106) | 296,442 | 20,007,396 | 15,559,778 |
| TOTAL | \$ 46,000,055 | \$ 12,643,814 | \$ 20,407,696 | \$ 19,615,576 |

See notes to financial statements.

| Proprietary Fund Types | | Fiduciary Fund Types | | Account Groups | | | Total (Memorandum Only) | |
|------------------------|---------------------|----------------------|----|-----------------------|------------------------|---------------|--------------------------------------|--------------------------------------|
| Enterprise | Internal Service | Trust and Agency | | General Fixed Assets | General Long-Term Debt | | 1996 | 1995 |
| \$ 313,174 | \$ 144,685 | \$ 50 | \$ | \$ | \$ | \$ | \$ 7,821,036 | \$ 4,319,134 |
| 8,674,526 | 2,043,904 | 2,512,679 | | | 5,647,524 | | 5,647,524 | 9,574,984 |
| | | 8,438,833 | | | 2,512,681 | | 2,512,681 | 2,272,244 |
| | | | | | 75,233,091 | | 75,233,091 | 73,427,561 |
| 1,884,715 | | | | | | 9,717,926 | 9,717,926 | 7,989,037 |
| 117,864 | 8,282 | 40,897 | | | 11,208,498 | | 11,208,498 | 13,143,090 |
| 47,380 | 374,048 | 604,027 | | | 234,262 | | 234,262 | 330,306 |
| 1,328,644 | 685,269 | | | | 512,130 | | 512,130 | 176,917 |
| | | | | | 10,256,969 | | 10,256,969 | 6,390,232 |
| | | | | | 2,742,001 | | 2,742,001 | 3,484,195 |
| 1,217,603 | | | | 590,458,730 | | | 591,676,333 | 572,650,994 |
| | | | | | 20,007,396 | | 20,007,396 | 17,944,038 |
| | | | | | 10,070,826 | | 10,070,826 | 6,781,762 |
| | | | | | 23,800,000 | | 23,800,000 | 26,000,000 |
| | | | | | 171,024,051 | | 171,024,051 | 177,151,567 |
| <u>\$ 13,583,906</u> | <u>\$ 3,256,188</u> | <u>\$ 11,596,486</u> | | <u>\$ 590,458,730</u> | <u>\$ 224,902,273</u> | | <u>\$ 942,464,724</u> | <u>\$ 921,636,061</u> |
| \$ 518,900 | \$ 1,106,861 | \$ 305,902 | \$ | \$ | \$ | \$ 13,006,472 | \$ 9,097,419 | |
| 93,883 | 263 | | | | | 6,859,055 | 6,859,055 | 283,631 |
| 344,486 | 22,410 | 653,550 | | | | 653,550 | 653,550 | 6,431,155 |
| | 917,340 | | | | | 38,435,061 | 38,435,061 | 1,021,196 |
| 482,643 | 1,649,003 | 35,944 | | | | 917,340 | 917,340 | 34,167,367 |
| | | 370,764 | | | | 35,944 | 35,944 | 625,000 |
| | | | | | | 10,256,969 | 10,256,969 | 35,944 |
| | | | | | | 5,657,189 | 5,657,189 | 6,390,232 |
| | | | | | | 4,187,905 | 4,187,905 | 4,649,370 |
| | | | | | | 23,800,000 | 23,800,000 | 303,936 |
| | | | | | | 5,882,921 | 5,882,921 | 23,800,000 |
| | | | | | | 191,031,447 | 191,031,447 | 26,000,000 |
| | | | | | | 2,512,679 | 2,512,679 | 6,477,826 |
| <u>1,439,912</u> | <u>3,695,877</u> | <u>3,878,839</u> | | | <u>224,902,273</u> | | <u>303,236,532</u> | <u>292,850,925</u> |
| 720,796 11,423,198 | (439,689) | | | | 590,458,730 | | 720,796 10,983,509 590,458,730 | 720,796 10,121,593 571,678,371 |
| | | | | | | | | |
| | | 700,138 | | | | 700,138 | 700,138 | 765,822 |
| | | | | | | 10,983,509 | 10,983,509 | 12,788,758 |
| | | | | | | 234,262 | 234,262 | 330,306 |
| | | | | | | 728,088 | 728,088 | 2,023,241 |
| | | | | | | 20,007,396 | 20,007,396 | 17,944,038 |
| | | | | | | 10,300,000 | 10,300,000 | 7,200,000 |
| | | | | | | | | |
| | | 7,017,509 | | | | 17,811,589 | 17,811,589 | 23,422,059 |
| | | | | | | (20,731,296) | (20,731,296) | (18,209,848) |
| <u>12,143,994</u> | <u>(439,689)</u> | <u>7,717,647</u> | | | <u>590,458,730</u> | | <u>639,228,192</u> | <u>628,785,136</u> |
| <u>\$ 13,583,906</u> | <u>\$ 3,256,188</u> | <u>\$ 11,596,486</u> | | | <u>\$ 224,902,273</u> | | <u>\$ 942,464,724</u> | <u>\$ 921,636,061</u> |

**SCHOOL DISTRICT NO. 1
IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO**

**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1996**

| | Governmental Fund Types | | | | Fiduciary Fund Types | Total (Memorandum Only) | |
|--|-------------------------|-------------------|----------------------|----------------------|----------------------|-------------------------|----------------------|
| | General | | Bond | Capital | Expendable | Year Ended | |
| | Special | Revenue | Redemption | Projects | Trust | 1996 | 1995 |
| REVENUES | | | | | | | |
| Taxes | \$ 204,879,830 | \$ | \$ 16,178,182 | \$ 3,585 | \$ | \$ 221,061,597 | \$ 214,068,591 |
| Intergovernmental: | | | | | | | |
| State sources | 111,823,498 | 6,681,745 | | | | 118,505,243 | 109,697,626 |
| Federal sources | 1,034,428 | 25,060,872 | | | | 26,095,300 | 23,685,872 |
| Charges for services | 98,327 | 288,411 | | | | 386,738 | 448,718 |
| Interest on investments | 1,426,414 | 113,274 | 828,686 | 992,142 | \$13,605 | 3,874,121 | 4,646,628 |
| Other local sources | 737,257 | 6,269,388 | | 48,647 | 3,691,902 | 10,747,194 | 14,447,965 |
| Total revenues | 319,999,754 | 38,413,690 | 17,006,868 | 1,044,374 | 4,205,507 | 380,670,193 | 366,995,400 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Instruction | 194,557,592 | 23,789,242 | | 269,163 | 2,934 | 218,618,931 | 206,536,292 |
| Supporting services | 58,913,067 | 8,453,108 | | | 80,013 | 67,446,188 | 62,882,435 |
| Business supporting services | 51,230,059 | 566,011 | | 6,673,049 | | 58,469,119 | 62,170,725 |
| Community services | 1,101 | 194,308 | | | | 195,409 | 122,087 |
| Nonprogrammed charges | 6,970,884 | | | | 3,382,930 | 10,353,814 | 10,682,550 |
| Capital outlay | 7,590,968 | 1,281,786 | | 9,980,520 | 4,828 | 18,858,102 | 27,044,447 |
| Debt service: | | | | | | | |
| Principal on bonds and certificates of participation | | | 5,135,000 | 2,200,000 | | 7,335,000 | 7,874,370 |
| Interest on bonds, notes and certificates of participation | | | 9,808,510 | 1,700,325 | | 11,508,835 | 12,220,707 |
| Principal on capital lease obligations | 496,065 | | | 105,219 | | 601,284 | 142,860 |
| Interest on capital lease obligations | 135,136 | | | 25,193 | | 160,329 | 22,123 |
| Total expenditures | 319,894,872 | 34,284,455 | 14,943,510 | 20,953,469 | 3,470,705 | 393,547,011 | 389,698,596 |
| Excess (deficiency) of revenues over expenditures | 104,882 | 4,129,235 | 2,063,358 | (19,909,095) | 734,802 | (12,876,818) | (22,703,196) |
| Other financing sources (uses): | | | | | | | |
| Operating transfers in | 5,596,735 | 2,620,725 | | 9,217,425 | | 17,434,885 | 15,537,642 |
| Operating transfers out | (11,838,159) | (5,596,726) | | (500,000) | | (17,934,885) | (15,537,642) |
| Capital lease | 4,485,253 | | | 25,978 | | 4,511,231 | |
| Total other financing sources (uses) | (1,756,171) | (2,976,001) | | 8,743,403 | | 4,011,231 | |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (1,651,289) | 1,153,234 | 2,063,358 | (11,165,692) | 734,802 | (8,865,587) | (22,703,196) |
| FUND BALANCE/(DEFICIT) AT BEGINNING OF YEAR | (4,864,817) | (856,792) | 17,944,038 | 26,725,470 | 6,282,707 | 45,230,606 | 68,250,278 |
| RESIDUAL EQUITY TRANSFER | | | | | | | (316,476) |
| FUND BALANCE/(DEFICIT) AT END OF YEAR | \$ (6,516,106) | \$ 296,442 | \$ 20,007,396 | \$ 15,559,778 | \$ 7,017,509 | \$ 36,365,019 | \$ 45,230,606 |

See notes to financial statements.

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**SCHOOL DISTRICT NO. 1
IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO**

**ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 1996**

| | General Fund | | | Special Revenue Funds | | |
|--|------------------------|-----------------------|-----------------------------------|-----------------------|--------------------|-----------------------------------|
| | Final Budget | Actual | Variance - Budget to Actual | Final Budget | Actual | Variance - Budget to Actual |
| | | | | | | |
| REVENUES | | | | | | |
| Taxes | \$ 204,250,486 | \$ 204,879,830 | \$ 629,344 | \$ | \$ | \$ |
| Intergovernmental: | | | | | | |
| State sources | 111,460,102 | 111,823,498 | 363,396 | 6,755,272 | 6,681,745 | (73,527) |
| Federal sources | 1,210,133 | 1,034,428 | (175,705) | 27,637,714 | 25,060,872 | (2,576,842) |
| Charges for services | 228,000 | 98,327 | (129,673) | 352,000 | 288,411 | (63,589) |
| Interest on investments | 1,300,000 | 1,426,414 | 126,414 | 92,395 | 113,274 | 20,879 |
| Other local sources | 1,347,454 | 737,257 | (610,197) | 8,429,091 | 6,269,388 | (2,159,703) |
| Total revenues | <u>319,796,175</u> | <u>319,999,754</u> | <u>203,579</u> | <u>43,266,472</u> | <u>38,413,690</u> | <u>(4,852,782)</u> |
| EXPENDITURES AND ENCUMBRANCES | | | | | | |
| Current: | | | | | | |
| Instruction | 193,779,005 | 193,148,125 | 630,880 | 28,290,017 | 23,664,749 | 4,625,268 |
| Supporting services | 59,179,217 | 57,426,465 | 1,752,752 | 9,390,220 | 8,015,598 | 1,374,622 |
| Business supporting services | 46,937,108 | 50,877,282 | (3,940,174) | 1,069,450 | 551,328 | 518,122 |
| Community services | | 1,101 | (1,101) | 321,823 | 194,928 | 126,895 |
| Nonprogrammed charges | 8,105,734 | 6,509,306 | 1,596,428 | | | |
| Contingency reserve | 14,777,359 | | 14,777,359 | | | |
| Capital outlay | 4,484,100 | 3,240,443 | 1,243,657 | 1,114,100 | 1,519,175 | (405,075) |
| Debt service: | | | | | | |
| Principal on bonds and certificates of participation | | | | | | |
| Interest on bonds, notes and certificates of participation | | | | | | |
| Principal on capital lease obligations | | 496,065 | (496,065) | | | |
| Interest on capital lease obligations | | 135,136 | (135,136) | | | |
| Total expenditures and encumbrances | <u>327,262,523</u> | <u>311,833,923</u> | <u>15,428,600</u> | <u>40,185,610</u> | <u>33,945,778</u> | <u>6,239,832</u> |
| Excess (deficiency) of revenues over expenditures and encumbrances | (7,466,348) | 8,165,831 | 15,632,179 | 3,080,862 | 4,467,912 | 1,387,050 |
| Other financing sources (uses): | | | | | | |
| Payment on note receivable | | | | | | |
| Operating transfers in | 5,939,276 | 5,596,735 | (342,541) | 2,620,725 | 2,620,725 | |
| Operating transfers out | (14,735,738) | (11,838,159) | 2,897,579 | (6,144,264) | (5,596,726) | 547,538 |
| Total other financing sources (uses) | <u>(8,796,462)</u> | <u>(6,241,424)</u> | <u>2,555,038</u> | <u>(3,523,539)</u> | <u>(2,976,001)</u> | <u>547,538</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures, encumbrances and other financing uses | <u>\$ (16,262,810)</u> | 1,924,407 | <u>\$ 18,187,217</u> | <u>\$ (442,677)</u> | 1,491,911 | <u>\$ 1,934,588</u> |
| Accrued salaries earned but unpaid: | | | | | | |
| Beginning of year | | 31,081,942 | | | 2,636,048 | |
| End of year | | (35,066,407) | | | (2,977,133) | |
| Encumbrances: | | | | | | |
| Beginning of year | | (3,580,329) | | | (767,413) | |
| End of year | | 3,713,723 | | | 769,821 | |
| Beginning inventory encumbrances | | 705,257 | | | | |
| Ending inventory encumbrances | | (429,882) | | | | |
| FUND BALANCE/(DEFICIT) AT BEGINNING OF YEAR | | <u>(4,864,817)</u> | | | <u>(856,792)</u> | |
| FUND BALANCE/(DEFICIT) AT END OF YEAR | | <u>\$ (6,516,106)</u> | | | <u>\$ 296,442</u> | |

See notes to financial statements.

| Bond Redemption Fund | | | Capital Projects Fund | | |
|-------------------------------|-------------------------|-----------------------------------|-------------------------------|---------------------------|-----------------------------------|
| Final Budget | Actual | Variance - Budget to Actual | Final Budget | Actual | Variance - Budget to Actual |
| \$ 161,757,908 | \$ 16,178,182 | \$ 20,274 | \$ | \$ 3,585 | \$ 3,585 |
| 926,508 | 828,686 | (97,822) | 848,881 | 992,142 | 143,261 |
| <u>17,084,416</u> | <u>17,006,868</u> | <u>(77,548)</u> | <u>1,208,000</u> | <u>48,647</u> | <u>(1,159,353)</u> |
| | | | 2,056,881 | 1,044,374 | (1,012,507) |
| | | | 18,654,343 | 210,756 | 18,443,587 |
| | | | 1,500,000 | 6,969,853 | (5,469,853) |
| 20,021,566 | 20,021,566 | | 7,450,986 | 5,038,284 | 2,412,702 |
| 5,135,000 | 5,135,000 | | | 2,200,000 | (2,200,000) |
| 9,780,837 | 9,780,837 | | 305,154 | 1,700,325 | (1,395,171) |
| 45,000 | 27,673 | 17,327 | | 105,219 | (105,219) |
| | | | | 25,193 | (25,193) |
| <u>34,982,403</u> | <u>14,943,510</u> | <u>20,038,893</u> | <u>27,910,483</u> | <u>16,249,630</u> | <u>11,660,853</u> |
| (17,897,987) | 2,063,358 | 19,961,345 | (25,853,602) | (15,205,256) | 10,648,346 |
| | | | 950,000 | 125,023 | (824,977) |
| | | | 9,217,425 | 9,217,425 | |
| | | | (500,000) | (500,000) | |
| | | | 9,667,425 | 8,842,448 | (824,977) |
| <u><u>\$ (17,897,987)</u></u> | <u><u>2,063,358</u></u> | <u><u>\$ 19,961,345</u></u> | <u><u>\$ (16,186,177)</u></u> | <u><u>(6,362,808)</u></u> | <u><u>\$ 9,823,369</u></u> |
| | | | 55,161 | | |
| | | | (24,625) | | |
| | | | (330,306) | | |
| | | | 231,262 | | |
| | | | (8,265,812) | | |
| | | | 3,531,436 | | |
| | | | <u>17,944,038</u> | | <u>26,725,470</u> |
| | | | <u><u>\$ 20,007,396</u></u> | | <u><u>\$ 15,559,778</u></u> |

**SCHOOL DISTRICT NO. 1
IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO**

**PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
YEAR ENDED JUNE 30, 1996**

| | Proprietary Fund Type | | Fiduciary Fund Nonexpendable Trust Funds | Total (Memorandum Only) Year Ended | |
|--|--------------------------|---------------------|--|---------------------------------------|----------------------|
| | Enterprise | Internal Service | | 1996 | 1995 |
| OPERATING REVENUES: | | | | | |
| Food sales | \$ 3,375,709 | \$ 5,327,356 | \$ 34,685 | \$ 8,703,065 | \$ 7,899,172 |
| Interest on investments | _____ | 3,862 | _____ | 38,547 | 246,975 |
| Total operating revenues | <u>3,375,709</u> | <u>5,331,218</u> | <u>34,685</u> | <u>8,741,612</u> | <u>8,146,147</u> |
| OPERATING EXPENSES: | | | | | |
| Cost of food: | | | | | |
| Purchased | 5,311,149 | 1,945,415 | | 7,256,564 | 4,236,097 |
| Donated | 865,404 | | | 865,404 | 1,076,517 |
| Salaries and employee benefits | 7,273,273 | 454,132 | | 7,727,405 | 6,222,929 |
| Utilities | 79,364 | | | 79,364 | 100,991 |
| Purchased professional and technical services | | 46,744 | | 46,744 | (43,515) |
| Purchased property services | | 693,225 | | 693,225 | 37,193 |
| Other purchased services | | 5,751 | | 5,751 | 3,226 |
| Supplies | 744,190 | 18,253 | | 762,443 | 504,208 |
| Repairs and maintenance | 136,059 | | | 136,059 | 118,071 |
| Rent | 84,000 | | | 84,000 | 84,000 |
| Depreciation | 126,807 | | | 126,807 | 128,319 |
| Administrative services | 259,860 | | | 259,860 | 174,081 |
| Other business services | | | 100,714 | 100,714 | 19,200 |
| Insurance expense | | 3,331,709 | | 3,331,709 | 4,769,893 |
| Claims expense | | 163,211 | | 163,211 | 226,475 |
| Other | 1,947 | 24,250 | _____ | 26,197 | (4,720) |
| Total operating expenses | <u>14,882,053</u> | <u>6,682,690</u> | <u>100,714</u> | <u>21,665,457</u> | <u>17,652,965</u> |
| Operating loss | (11,506,344) | (1,351,472) | (66,029) | (12,923,845) | (9,506,818) |
| NON-OPERATING REVENUES: | | | | | |
| Reimbursements from government sponsored programs | 11,315,450 | | | 11,315,450 | 9,267,212 |
| Donated commodities from federal government | 1,011,985 | | | 1,011,985 | 864,249 |
| Interest on investments | 466,189 | 142,785 | | 608,974 | 415,911 |
| Other local sources | 14,325 | 1,050 | 345 | 15,720 | 21,801 |
| Transfers in | _____ | 500,000 | _____ | 500,000 | _____ |
| Total non-operating revenues | <u>12,807,949</u> | <u>643,835</u> | <u>345</u> | <u>13,452,129</u> | <u>10,569,173</u> |
| NET INCOME (LOSS) | <u>1,301,605</u> | <u>(707,637)</u> | <u>(65,684)</u> | <u>528,284</u> | <u>1,062,355</u> |
| RETAINED EARNINGS/FUND BALANCE AT BEGINNING OF YEAR | | | | | |
| | 10,121,593 | 267,948 | 765,822 | 11,155,363 | 9,776,532 |
| RESIDUAL EQUITY TRANSFER | _____ | _____ | _____ | _____ | <u>316,476</u> |
| RETAINED EARNINGS/FUND BALANCE AT END OF YEAR | | | | | |
| | <u>\$ 11,423,198</u> | <u>\$ (439,689)</u> | <u>\$ 700,138</u> | <u>\$ 11,683,647</u> | <u>\$ 11,155,363</u> |

See notes to financial statements.

**SCHOOL DISTRICT NO. 1
IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO**

**PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 1996**

| | Proprietary Fund Type | | Fiduciary Fund Nonexpendable | Total (Memorandum Only) | |
|---|--------------------------|---------------------|---------------------------------|-------------------------|--------------------|
| | Enterprise | Internal Service | | Year Ended | 1996 |
| | | | Trust Funds | 1995 | |
| OPERATING ACTIVITIES: | | | | | |
| Operating loss | \$ (11,506,344) | \$ (1,351,472) | \$ (66,029) | \$ (12,923,845) | \$ (9,506,818) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | 126,807 | | | 126,807 | 128,319 |
| Other non-operating revenue | 1,026,310 | 501,050 | 345 | 1,527,705 | 886,050 |
| Interest on investments | 466,186 | 142,785 | (34,685) | 574,289 | 381,217 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (370,880) | | 3,456 | (367,424) | 26,135 |
| Interest receivable | | (6,552) | | | 4,170 |
| Due from other funds | (35,841) | (301,500) | 31,285 | (306,056) | 40,604 |
| Inventory | 132,310 | (685,269) | | (552,959) | 299,202 |
| Accounts payable | 365,100 | 1,048,371 | 98,474 | 1,511,945 | (658,105) |
| Accrued payroll | 38,646 | (931) | | 37,715 | 29,098 |
| Accrued salaries earned but unpaid | (48,134) | 20,814 | | (27,320) | 29,964 |
| Accrued claims | | 292,340 | | | 625,000 |
| Due to other funds | 379,546 | 555,144 | | 934,690 | 1,042,981 |
| Total adjustments | <u>2,080,053</u> | <u>1,566,252</u> | <u>98,875</u> | <u>3,459,392</u> | <u>2,834,635</u> |
| Net cash provided by (used in) operating activities | (9,426,291) | 214,780 | 32,846 | (9,464,453) | (6,672,183) |
| NONCAPITAL FINANCING ACTIVITIES - | | | | | |
| Grants received | 11,315,450 | | | 11,315,450 | 9,267,212 |
| Residual equity transfer | | | | | 316,476 |
| | <u>11,315,450</u> | <u> </u> | <u> </u> | <u>11,315,450</u> | <u>9,583,688</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES - | | | | | |
| Purchases of equipment | (371,787) | | | (371,787) | (88,422) |
| INVESTING ACTIVITIES: | | | | | |
| Change in investments | (1,604,781) | (70,095) | (235,893) | (1,910,769) | (2,449,761) |
| Interest on investments | | | 34,685 | 34,685 | 34,694 |
| | <u>(1,604,781)</u> | <u>(70,095)</u> | <u>(201,208)</u> | <u>(1,876,084)</u> | <u>(2,415,067)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | | |
| | (87,409) | 144,685 | (168,362) | (396,874) | 408,016 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | | | | |
| | <u>400,583</u> | <u> </u> | <u>12,797</u> | <u>413,380</u> | <u>5,364</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | | | | | |
| | <u>\$ 313,174</u> | <u>\$ 144,685</u> | <u>\$ (155,565)</u> | <u>\$ 16,506</u> | <u>\$ 413,380</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | | | | |
| Donated food commodities | \$ 1,011,985 | \$ | \$ | \$ 1,011,985 | \$ 864,249 |
| Acquisition of food commodities through food donations | (1,011,985) | | | (1,011,985) | (864,249) |
| Adjustment to record write-offs of equipment to accumulated depreciation | 126,807 | | | 126,807 | 52,510 |
| Write-offs of equipment | (126,807) | | | (126,807) | (52,510) |
| NET EFFECT OF NONCASH TRANSACTIONS | | | | | |
| | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

See notes to financial statements.

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SCHOOL DISTRICT NO. 1 IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of School District No. 1 in the City and County of Denver and State of Colorado (the School District) is presented to assist in understanding the School District's financial statements. The following is a summary of the more significant policies:

A. *Financial Reporting Entity*

The School District was created for the purpose of supervising and governing the public schools and public school property within the boundaries of the City and County of Denver.

The financial statements of the School District include all of the integral parts of the School District's operations. The School District applied various criteria to determine if it is financially accountable for any organization which would require that organization to be included in the School District's reporting entity. These criteria include fiscal dependency, financial benefit/burden relationship, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

As required by generally accepted accounting principles (GAAP), these financial statements present the School District (primary government) and its component unit, Denver School Facilities Leasing Corporation. The component unit discussed below is included on a blended basis in the School District's reporting entity because of the significance of its operational or financial relationship with the School in accordance with Government Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*." Separate financial statements of Denver School Facilities Leasing Corporation can be obtained from the School District.

The Denver School Facilities Leasing Corporation

The Denver School Facilities Leasing Corporation was formed in December 1985 as a not-for-profit corporation under Sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code, and exists solely to acquire real estate, buildings and equipment for schools for future lease to the School District. The School District is primarily responsible for the creation and continued management of the Corporation, has influence over operations and is ultimately responsible for any deficits or operating deficiencies. The certificates of participation issued by the Corporation and their activities for the year are reflected in the accompanying combined financial statements of the School District in the Long-Term Debt Account Group and the Capital Reserve Fund, respectively. An evaluation of The Denver School Facilities Leasing Corporation using the above considerations results in its inclusion in the accompanying financial statements.

B. Fund Accounting

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term notes receivable are offset by fund balance reserve accounts, and are included in a separate fund balance reserve.

The various funds are summarized by type in the financial statements. Fund types and account groups used by the School District are described as follows:

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in other funds.

At June 30, 1996, the General Fund reflected a \$6.5 million fund deficit which was due primarily to the fact that revenue to fund the liability for salaries earned but unpaid as of year end is received and recognized after year end. The liability results from salaries of teachers and certain other employees earned September through June but paid out over the period September through August. Thus, at June 30, 1996, two months salary or approximately \$35 million was still unpaid.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. At June 30, 1996, the Government Designated Purpose Grants Fund, as part of the Special Revenue Funds, effected a \$26,000 deficit. This fund deficit was due to the same reason for the deficit in the general fund. The liability for the salaries of teachers and certain other employees which had been earned but had not yet been paid as of June 30, 1996 was \$3,000,000.

Bond Redemption Fund

The Bond Redemption Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the School District as a result of the issuance of general obligation bonds.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction and maintenance of major capital facilities and equipment (other than those financed by Proprietary Funds and Trust Funds) and the annual payments on lease purchase agreements.

Proprietary Fund Types

GASB Statement No. 20 "*Accounting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," requires that all proprietary funds apply all applicable GASB pronouncements (including National Council on Governmental Accounting ("NCGA") Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") of the Committee on Accounting Procedure. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989. The School District has elected not apply these Statements and Interpretations.

Food Services Enterprise Fund

The Food Services Enterprise Fund accounts for the revenue and expenditures related to providing breakfasts and lunches to School District students. The Food Services Enterprise Fund is used to account for operations for which the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

Internal Service Funds

During the year ended June 30, 1996, the School District established Internal Service Funds. The Internal Service Funds, which include the Self-Insurance Fund and the Warehouse Fund, are used to account for goods and services provided to departments and schools primarily within the School District on a cost-reimbursement basis. The Self-Insurance Fund was established in accordance with GASB Statement No. 10, "*Accounting and Financial Reporting for Risk Financing and Related Insurance Losses*." These activities had previously been reported in Special Revenue Funds. Prior year numbers have been restated to reflect this change. At June 30, 1996, the Self-Insurance Fund, as part of the Internal Service Funds, reflected a \$600,000 deficit. This fund deficit was due to the \$900,000 accrued for both reported and incurred but not reported claims.

Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trusts, Nonexpendable Trusts and Agency Funds. The Nonexpendable Trust Funds are used to account for operations where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Nonexpendable Trust Funds account for money and property held in trust for which the principal must be preserved intact. The Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The School District's life and health self-insurance funds are included in the Expendable Trust Funds. Agency Funds are custodial in nature (assets equal

liabilities) and do not involve measurement of results of operations. The Agency Funds for the School District are the Student Activity Funds which represent the bank accounts maintained at each school to account for monies derived from school sponsored activities.

C. *Fixed Assets and Long-Term Liabilities*

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and Expendable Trust Funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included in their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental funds operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, are not applicable to the School District. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Interest costs are not capitalized and are expensed as incurred.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group which is separate from the governmental funds.

The two account groups are not “funds.” They are used to measure financial position. They are not involved with measurement of results of operations.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

The Proprietary Funds and Nonexpendable Trust Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activities are included on their balance sheets. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Depreciation of all exhaustible fixed assets used by the Proprietary Funds is charged as an expense against operations. Accumulated depreciation is reported on the Proprietary Fund balance sheet.

Depreciation has been provided using the straight-line method over estimated useful lives of 5 to 20 years for equipment.

D. *Basis of Accounting*

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds, Expendable Trust Funds and Agency Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Property taxes and grants from other government units are considered "measurable" when in the hands of intermediary collecting governments. Property taxes are deemed available if collected during the current period and within sixty days thereafter and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

The Proprietary Fund and Nonexpendable Trust Funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

E. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

F. *Budgets and Budgetary Accounting*

The School District adopts an annual budget for all funds. The following are procedures used in establishing the budgetary data reflected in the accompanying combined financial statements:

1. Late in May or no later than June 1, the Superintendent presents to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and projected revenue.
2. Public hearings are conducted at various locations throughout the City and County of Denver and at the administration building to obtain taxpayer comments.
3. A balanced budget and an appropriation resolution must be adopted by June 30. The School District cannot expend monies in excess of the amount appropriated for an individual fund unless an amended or supplemental budget is approved by resolution. In addition, any further change in legally allowable transfers between funds requires approval by Board resolution.

4. Mill levies must be certified to the City and County of Denver by December 15.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are recorded as expenditures and changes in salaries earned but unpaid are excluded for budgetary purposes. Budgetary comparisons in this report are presented on the non-GAAP budgetary basis.
7. Total appropriations are as originally adopted.
8. At the end of a year, unencumbered appropriations lapse.

The Board of Education can modify the budget and appropriation resolutions upon completion of notification and publication requirements.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds.

Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

H. Investments

Investments are carried at cost or amortized cost.

I. Inventories

Inventories are valued at weighted average cost. Governmental Fund Type inventories are offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

General Fund inventory consists primarily of expendable supplies and equipment held at the central warehouse for issuance to schools or other School District locations. Food Services Fund inventory consists of food items, including commodities donated by the federal government, and cafeteria supplies held at the school lunchrooms and at the central warehouse for distribution to school lunchrooms.

The cost of inventory items issued is included in expenditures in the year of issuance (consumption method). In keeping with School District policy, the estimated fair market value of donated government commodities is recorded as a donation in the Food Services Fund when received and as an expenditure when consumed.

Expendable supplies issued to schools or other locations are not included in inventory.

J. Due From and Due to Other Funds

A general disbursing account within the General Fund is used on an imprest basis to make expenditures on behalf of all funds. This account is periodically reimbursed by the applicable funds. Interfund balances at June 30, 1996 represent reimbursements and adjustments due but not transferred as of that date.

K. Salaries Earned but Unpaid

The accrual of salaries earned but unpaid represents primarily the liability to teachers and certain other employees who earn their salaries over the nine-month school year but are paid over a twelve-month period from September 1 to August 31. Changes in the accrual are reflected in expenses on the applicable fund's statement of revenue, expenditures and changes in fund balance.

L. Accumulated Unpaid Vacation, Sick Leave and Other Employee Benefits

Accumulated sick leave which vests and is payable upon retirement has been accrued in the General Long-Term Debt Account Group since the amount is to be paid out of future financial resources in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This accrual has decreased from a balance of \$6.5 million as of June 30, 1995 to a balance of \$5.9 million as of June 30, 1996. The current portion of accumulated sick leave is not considered to be material.

M. Comparative Data

The accompanying combined financial statements include comparative prior period total data in order to provide a better understanding of changes that have taken place in the operations or financial position of the School District.

Certain prior period information has been reclassified to make it comparable with current year presentations.

N. Total Columns on Combined Financial Statements

Total columns on combined statements are captioned "Memorandum Only", to indicate they do not present the School District's financial position and operation changes and results, but are only presented to facilitate financial analysis. Such data is also not comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. BUDGETARY BASIS OF ACCOUNTING

As described in Note 1, the combined statement of revenue, expenditures, encumbrances and changes in fund balances - budget and actual has been prepared on the prescribed budgetary basis of accounting for the School District. This basis differs from generally accepted accounting principles because of the inclusion of encumbrances with reported expenditures and the exclusion of salaries earned but unpaid.

A reconciliation of fund balances reported on a basis of generally accepted accounting principles and fund balances reported on the budgetary basis is as follows:

| Fund | GAAP Basis | Changes in Encumbrances Outstanding | Changes in Note Receivable | Changes in Accrued Salaries Earned But Unpaid | | Budgetary Basis |
|------------------------|----------------|-------------------------------------|----------------------------|---|----------------|-----------------|
| | | | | | | |
| General Fund | \$ (6,516,106) | \$ (408,769) | \$ | \$ 3,984,465 | \$ (2,940,410) | |
| Special Revenue Funds | 296,442 | (2,408) | | 341,085 | 635,119 | |
| Bond Redemption Fund | 20,007,396 | | | | 20,007,396 | |
| Capital Projects Funds | 15,559,778 | 4,734,376 | 99,044 | (30,536) | 20,362,662 | |

Colorado statutes require that fixed budgets be legally adopted for all funds. For budgeting and appropriation purposes, operating transfers are reported as revenue and expenditures. Budgets have been prepared utilizing a non-GAAP budgetary basis of accounting for the Food Services Enterprise Fund, the Nonexpendable Trust Funds and the Expendable Trust Funds. In the budget for the Food Services Enterprise Fund, depreciation expense is not budgeted and capital outlay expenditures are included in expenses.

A budget to actual comparison of total expenses/disbursements and transfers is presented below for the following funds:

| | Budget | Total Expenses/ Disbursements/ Expenditures | Variance - Budget to Actual |
|-------------------------------|--------------|---|-----------------------------------|
| Food Services Enterprise Fund | \$20,476,705 | \$ 14,882,053 | \$ 5,594,652 |
| Agency Fund Disbursements | 14,844,513 | 11,567,837 | \$ 3,276,676 |
| Trust Funds | 13,949,194 | 3,571,419 | \$ 10,377,775 |

The expendable and nonexpendable trusts are budgeted together. The total expenses/expenditures represent the actual expenses/expenditures of both funds.

3. CASH AND INVESTMENTS

The School District's cash and investments are both separately and jointly held by the School District's funds.

Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents includes cash on hand, demand deposits held in banks, and other securities with original maturities of less than one week.

Cash Deposits

Colorado statutes require that the School District use eligible public depositories as defined by the Public Deposit Protection Act of 1989 (the Act). Under the Act, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation. Eligible

collateral as defined by the Act primarily includes obligations of, or guarantees by, the U. S. Government, the State of Colorado or any political sub-division thereof and obligations evidenced by notes secured by first lien mortgages or deeds of trust on real property.

At June 30, 1996, the carrying amount of the School District's deposits was \$4,951,278, including restricted cash of \$2,512,681, and the bank balance was \$6,872,985. Of the total bank balance, \$2,612,679 was covered by federal depository insurance, and the remaining \$5,258,306 was uninsured and collateralized with securities held by the banks in their trust departments in the School District's name. At June 30, 1996 the School District's petty cash balance was \$409,550.

Investments

The School District is authorized by Colorado Statute to invest in the following:

- A. Bonds and other interest-bearing obligations of the United States government.
- B. Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- C. Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- D. Notes or bonds issued pursuant to the "National Housing Act."
- E. Repurchase agreements.
- F. Commercial paper.
- G. Banker's Acceptances.
- H. Other investments as authorized by Colorado Statute.

The School District's investments are categorized in the following table to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

| | Category | | | Carrying Amount | Market Value |
|----------------------------|-----------------------------|------------------|------------------|-----------------------------|-----------------------------|
| | 1 | 2 | 3 | | |
| U.S. government Securities | \$ 80,873,175 | \$ | \$ | \$ 80,873,175 | \$ 81,346,967 |
| Corporate stock | <u>7,440</u> | <u> </u> | <u> </u> | <u>7,440</u> | <u>7,440</u> |
| Total | <u><u>\$ 80,880,615</u></u> | <u><u>\$</u></u> | <u><u>\$</u></u> | <u><u>\$ 80,880,615</u></u> | <u><u>\$ 81,354,407</u></u> |

Colorado Statutes require that securities underlying repurchase agreements must have a market value at least equal to the cost of the repurchase agreement.

4. PROPERTY TAXES

Property taxes are levied during December and attach an enforceable lien on property as of January 1 of the following year. Taxes are payable in either one installment on or before April 30, or in two equal payments on or before February 28 and June 15 of each year. The mill levy is determined by the

School District in accordance with state laws and finance formulas. The assessments and collections are made by the City and County of Denver and remitted monthly to the School District.

Property taxes levied for the General Fund totaled \$187,277,226 in 1996. Also included in the 1996 General Fund property taxes are additional taxes of \$12,002,302 which were approved by voters and represent the lesser of \$12,099,253 or 2.789 mills based on the mill levy limitations in the State constitutional amendment approved by voters in November 1992. General Fund deferred revenues included \$3,358,852 of property taxes at June 30, 1996. Property taxes levied for the Bond Redemption Fund totaled \$16,245,497 in 1996 and accounted for the entire Bond Redemption Fund deferred revenue balance of \$291,366 at June 30, 1996. In accordance with the 1994 Public School Finance Act, all property tax revenue is recorded in the General Fund and Bond Redemption Fund.

Collection fees by the City and County of Denver amount to one-half of 1% of property taxes collected for the General Fund and no collection fees are charged for the Bond Redemption Fund. Collection fees are recorded as an expenditure.

5. DUE FROM AND TO OTHER FUNDS

Balances of interfund receivables and payables at June 30, 1996 are as follows:

| | Due From | Due To |
|---------------------------------|-------------------------|-------------------------|
| General Fund | \$ 8,133,506 | \$ 1,073,220 |
| Capital Projects Funds: | | |
| Building Fund | 136,134 | 55,324 |
| Capital Reserve Fund | 604,928 | 361,262 |
| Special Revenue Funds: | | |
| Government Designated Purpose | 263,349 | 6,160,688 |
| Grants Fund | 93,597 | 56 |
| Pupil Activity Fund | | |
| Proprietary Funds: | | |
| Enterprise - Food Services Fund | 47,380 | 482,643 |
| Internal Service Funds: | | |
| Self-Insurance Fund | 72,513 | 1,649,003 |
| Warehouse Fund | 301,535 | |
| Fiduciary Funds: | | |
| Expendable Trust Fund | 604,027 | 215,199 |
| Nonexpendable Trust Fund | | 155,565 |
| Bond Redemption | | <u>104,009</u> |
| Total | <u>\$10,256,969</u> | <u>\$10,256,969</u> |

6. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

| | Land | Buildings and Improvements | Equipment | Construction In-Progress | Capitalized Leases | Total |
|---|----------------------|----------------------------------|------------------------|-----------------------------|-----------------------|-------------------------|
| Balance, June 30, 1995 | \$ 38,660,427 | \$ 417,512,986 | \$ 106,935,693 | \$ 7,863,761 | \$ 705,504 | \$ 571,678,371 |
| Additions and transfers Retirements | _____ | 12,941,287 | 9,634,280 (985,436) | (7,000,746) | 4,190,975 | 19,765,796 (985,437) |
| Balance, June 30, 1996 | <u>\$ 38,660,427</u> | <u>\$ 430,454,273</u> | <u>\$ 115,584,536</u> | <u>\$ 863,015</u> | <u>\$ 4,896,479</u> | <u>\$ 590,458,730</u> |

Functional summary of general fixed assets at June 30, 1996 is as follows:

| | |
|----------------------------|------------------|
| General fixed assets: | |
| Land | \$ 38,660,427 |
| Buildings and improvements | 430,454,273 |
| Equipment | 115,584,536 |
| Construction-in-progress | 863,015 |
| Capitalized leases | <u>4,896,479</u> |

| | |
|----------------------------|-----------------------|
| Total general fixed assets | <u>\$ 590,458,730</u> |
|----------------------------|-----------------------|

| | |
|---|------------------|
| Investment in general fixed assets: | |
| Acquired prior to January 1977 from all sources | \$208,964,923 |
| Acquired after January 1977 from: | |
| General Fund | 57,855,572 |
| Capital Reserve Fund | 139,497,795 |
| Government Designated Purpose Grants Fund | 17,296,565 |
| Pupil Activity Fund | 296,662 |
| Building Fund | 164,555,248 |
| Trust Fund | 547,288 |
| Insurance Reserve Fund | <u>1,444,677</u> |

| | |
|----------------------------|-----------------------|
| Total general fixed assets | <u>\$ 590,458,730</u> |
|----------------------------|-----------------------|

A summary of proprietary fund type equipment at June 30, 1996 is as follows:

| | |
|-------------------------------|---------------------|
| Food Service Fund equipment | \$ 3,748,620 |
| Less accumulated depreciation | <u>(2,531,017)</u> |
| Net equipment | <u>\$ 1,217,603</u> |

7. CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt is as follows:

| | Capital Lease Obligations | Certificates of Participation | Sick Leave Payable | Bonds Payable | Total |
|---|---------------------------------|-------------------------------------|--------------------------|-----------------------|-----------------------|
| Payable at | | | | | |
| June 30, 1995 | \$ 303,936 | \$ 26,000,000 | \$ 6,477,826 | \$ 195,095,605 | \$ 227,877,367 |
| New lease | 4,485,253 | | | | 4,485,253 |
| Total reduction of principal | (601,284) | (2,200,000) | | (5,135,000) | (7,936,284) |
| Accretion of premium - capital appreciation bonds | | | | 1,070,842 | 1,070,842 |
| Net decrease in sick leave payable | _____ | _____ | (594,906) | _____ | (594,906) |
| Payable at | | | | | |
| June 30, 1996 | <u>\$ 4,187,905</u> | <u>\$ 23,800,000</u> | <u>\$ 5,882,920</u> | <u>\$ 191,031,447</u> | <u>\$ 224,902,272</u> |

Long-term debt at June 30, 1996 is comprised of the following:

Capital lease obligations:

The District has entered into various equipment leases with lease terms from 36 to 60 months and implicit interest rates between 5.4% and 10.50% \$4,187,905

Certificates of participation:

1985 and 1989 certificates of participation, progressive interest rates of 6.5% to 6.95% payable in semiannual installments through 2000, principal due in annual installments of \$2,200,000 to \$10,250,000 through December 2000 23,800,000

Bond issuances:

1990 - 1992 General Obligation Bonds, progressive interest of 4.85% to 10% payable in semiannual installments through 2003, principal due in combined annual installments of \$5,470,000 to \$7,510,000 through December 2003 43,045,000

1994 General Obligation Refunding Current Interest Bonds, progressive interest rates of 3.85% to 6.5% payable in semiannual installments through 2012, principal due in semiannual installments beginning in 1998 of \$430,000 to \$10,600,000 through December 2010 with term bonds totaling \$44,505,000, due December 2012 124,955,000

| | |
|--|----------------------|
| 1994 General Obligation Refunding Premium Capital Appreciation Bonds, issued to yield 5% to 5.45%, principal and interest payable in four installments of \$10,000,000, \$10,050,000, \$10,670,000 and \$10,525,000 at December 2004, December 2006, December 2008 and December 2009, respectively. Principal value of the Premium Capital Appreciation Bonds | 10,354,734 |
| Premium portion of the Premium Capital Appreciation Bond proceeds presented as long-term debt in the financial statements, in accordance with generally accepted accounting principles. From a legal standpoint, such premium is not to be construed as additional outstanding principal, but rather as interest. | <u>10,162,435</u> |
| | <u>145,472,169</u> |
| Cumulative accretion of interest on 1994 Premium Capital Appreciation Bonds at June 30, 1996 | 2,514,278 |
| Sick leave payable | <u>5,882,921</u> |
| Total | <u>\$224,902,273</u> |

The annual requirements to amortize all debt outstanding excluding sick leave payable and capital lease obligations as of June 30, 1996, including interest payments of \$120,655,063 are as follows:

| Years Ending June 30 | Bond Payment Obligation | Certificates of Participation | Total |
|-------------------------|-------------------------------|-------------------------------------|----------------------|
| 1997 | \$ 14,922,905 | \$ 3,901,275 | \$ 18,824,180 |
| 1998 | 14,944,232 | 3,889,975 | 18,834,207 |
| 1999 | 16,048,545 | 5,363,425 | 21,411,970 |
| 2000 | 15,947,053 | 5,366,500 | 21,313,553 |
| 2001 | 16,059,518 | 10,606,189 | 26,665,707 |
| Thereafter | <u>225,922,615</u> | <u> </u> | <u>225,922,615</u> |
| Total | <u>\$303,844,868</u> | <u>\$29,127,364</u> | <u>\$332,972,232</u> |

The annual requirements relating to capital leases as of June 30, 1996 are as follows:

| Years Ending June 30 | |
|--|---------------------|
| 1997 | \$ 1,118,285 |
| 1998 | 1,116,805 |
| 1999 | 1,023,134 |
| 2000 | 1,018,815 |
| 2001 | 423,612 |
| | <hr/> |
| Less interest | 4,700,651 |
| | <hr/> |
| Capital lease obligations at June 30, 1996 | <u>\$ 4,187,906</u> |

The Certificates of Participation and capital lease obligations are to be paid from the Capital Reserve Fund, with the exception of \$1,020,961 of capital lease obligations which will be paid from the General Fund. The bond obligations will be paid from the Bond Redemption Fund.

The Capital Projects Fund balance of \$15,559,778 includes \$7,917,872 remaining from the issuance of \$199,600,000 in general obligation bonds and interest earnings. Of the \$7,641,906 Capital Reserve Fund Balance, \$5,647,524 represents reserves and investments held in support of outstanding certificates of participation. At June 30, 1996, the School District had capital expenditure purchase commitments outstanding of \$3,531,436.

Capital lease obligations

The computer, software and copier equipment lease agreements contain a provision whereby the leases shall terminate if the Board of Education does not appropriate funds for lease payments in any succeeding year. There are no contingent rental payments, escalation clauses or other restrictions. The leases contain a provision whereby the title of the property will transfer at the end of the lease if the lease is not terminated. In accordance with generally accepted accounting principles, the leases have been capitalized at the present value of future lease payments, and the computer and copier equipment are reflected in the General Fixed Assets Account Group.

Defeasance of debt

During the fiscal year ended June 30, 1994, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 1996, \$133.5 million of bonds outstanding are considered defeased.

8. PENSION PLAN

The School District contributes to the Denver Public School Employees' Pension and Benefit Association, a separate entity which is not a component of the School District, to provide defined retirement, death and disability benefits to participating employees. The Denver Public School Employees' Pension and Benefit Association is a single-employer defined benefit pension plan (the Plan). Participation in the Plan is mandatory for all full-time employees hired after December 1, 1945

and requires member contributions of 6% of gross salary if employed continuously prior to January 1, 1995, and 7% if employed or re-employed on or after January 1, 1995. The payroll for employees covered by the Plan for the year ended June 30, 1996 was approximately \$202,000,000. Total payroll for the School District for the year ended June 30, 1996 was approximately \$245,547,763.

In addition, the School District is required by State Statute to fund the pension plan, including any actuarial pension liabilities. Based upon the funding policy adopted by the Board of Education, employer contribution rates were fixed at 12.5% of payroll effective on and after January 1, 1992 provided that the funding period for unfunded liabilities (including prior service costs) not exceed 30 years. The funding period at January 1, 1996 is 28.4 years.

As of January 1, 1993, the employer's contribution rate increased by 4.00% to fund an early retirement incentive plan (ERIP) which was made available to employees during 1992. As the result of an actuarial study in 1993, the contribution required to fund the ERIP was fixed at 3.77% effective on July 1, 1993. The funding of the ERIP liability is to be amortized over a period not to exceed 18 years beginning January 1, 1993. The funding period at January 1, 1996 is 13.25 years.

During the year ended June 30, 1996, the School District, in accordance with the Board of Education's budget approved in June 1994, made contributions totalling approximately \$32,870,000 or 16.27% of covered payroll for the period July 1, 1995 through June 30, 1996, this rate being in accordance with actuarially determined contribution requirements. During the same period, employees of the School District made contributions totalling approximately \$12,255,000 or 6% of covered payroll.

For the year ended June 30, 1996, contributions to the plan consisted of the following:

| Salary Base | July 1, 1995 - December 31, 1995 | January 1, 1996 - June 30, 1996 |
|--------------------------------------|-------------------------------------|------------------------------------|
| Employer normal cost | | |
| Rate | 6.35% | 6.41% |
| Dollar amount | \$ 6,369,500 | \$ 6,520,300 |
| Unfunded actuarial accrued liability | | |
| Rate | 6.15% | 6.09% |
| Dollar amount | \$ 6,168,900 | \$ 6,194,800 |
| Early retirement incentive | | |
| Rate | 3.77% | 3.77% |
| Dollar amount | \$ 3,781,600 | \$ 3,834,900 |
| Total employer contribution | | |
| Rate | 16.27% | 16.27% |
| Dollar amount | \$ 16,320,000 | \$ 16,550,000 |

The amount shown below as "pension benefit obligation" (PBO) is a standardized measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the Plan's funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among Public Employee Retirement Systems. The measure is the actuarial present value of credited projected benefits, and is independent

of the actuarial funding method used to determine contributions to the Plan. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the PBO.

The PBO was determined as part of an actuarial valuation at January 1, 1996. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9% per year compounded annually, (b) projected salary increases of 5.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of approximately 2.25% per year attributable to seniority/merit, (d) projected annual retirement adjustment allowance of 3.25%, (e) life expectancy based on the 1983 Group Annuity Mortality Table with a three-year setback for males and a one-year setback for females and (f) the entry age normal actuarial cost method.

At December 31, 1995, the pension benefit obligation consisted of the following:

Pension benefit obligation:

| | |
|---|-----------------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$ 968,750,000 |
| <hr/> | |
| Current employees: | |
| Accumulated employee contributions including allocated investment income | 155,251,000 |
| Employer-financed vested | 312,658,000 |
| Employer-financed nonvested | <u>40,603,000</u> |
| Total pension benefit obligation | 1,477,262,000 |
| Net assets available for benefits, at fair value | <u>1,362,755,000</u> |
| <hr/> | |
| Pension benefit obligation in excess of net assets | \$ <u>114,507,000</u> |

At December 31, 1995, Plan membership consisted of the following:

| | |
|---|---------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits | 4,928 |
| <hr/> | |
| Current employees: | |
| Vested | 2,953 |
| Nonvested | <u>3,037</u> |
| <hr/> | |
| | <u>10,918</u> |

For the three years ended December 31, 1995, 1994 and 1993, net available assets, at fair value, were sufficient to fund 92%, 85% and 88% of the pension benefit obligation, respectively. The unfunded pension benefit obligation represented 55%, 109% and 78% of annual payroll for employees covered by the Retirement Plan for the three years ended December 31, 1995, 1994 and 1993, respectively.

Showing the unfunded pension obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the three years ended December 1995, 1994 and 1993, the School District's contributions to the Plan, all made in accordance with actuarial requirements, were 16.27%, 16.27%, and 16.39% (16.5% for the first six months and 16.27% for the last six months), respectively, of annual covered payroll.

Although it has not expressed any intention to do so, the School District has the right under the Plan to discontinue its contributions or terminate the Plan.

Should the Plan terminate at some future time, its net assets will be used to provide participants' benefits. Upon such termination, the assets of the Plan are to be allocated for the benefit of each participant and beneficiary in a manner approved by the Internal Revenue Service.

Historical trend information showing the Plan's progress in accumulating sufficient assets to pay benefits when due is presented in the Plan's December 31, 1995 financial statements. Future financial statements of the Plan will continue to be presented on a calendar year basis.

9. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits, the School District provides postretirement health care and life insurance benefits, in accordance with Board of Education Resolutions 1690 and 1643, respectively. The benefits are provided to all employees who retired under the provisions of early, regular, or disability retirement. Currently, approximately 4,150 retirees meet the eligibility requirement. Effective July 1, 1994, in accordance with Board of Education action, the maximum monthly contributions for single coverage under the health insurance program was set at \$170. For those retiring on or after July 1, 1994, the maximum monthly contribution is \$6.80 for each year of accredited service but not more than \$170. The District pays the full premium cost for the life insurance program for the retired employee. Retired employees may pay for their dependents on the health insurance program. Expenditures for postretirement health care benefits are recognized on a pay-as-you-go basis. Approximately \$6,229,323 was expended on the health insurance program for retirees during the year ended June 30, 1996. Life insurance premiums for retired employees totaled \$315,205 during the year ended June 30, 1996. A fund to pre-fund future life premiums for retired employees was established in 1978 and is held by the insurance carrier to be used only for the purpose of providing continued life insurance. The accumulated balance of this Fund at June 30, 1996 approximated \$10,200,000.

10. MEDICAL SELF-INSURANCE

The School District maintains a self-insurance program for medical benefits for retirees age 65 and over under the Denver Public Schools Medical Care Plan. Metropolitan Life Insurance Company provides stop-loss coverage for aggregate claims based on the number of employees in the Plan. There have been no significant reductions in insurance coverage from that provided in the prior year and there have been no settlements that exceeded the insurance coverage for each of the last three fiscal years. At June 30, 1996 the School District has an accrued balance of \$653,550 for estimated claims incurred but not paid or reported. A summary of changes in the estimated liability is as follows:

| Beginning Liability | Current Year Claims and Change in Estimate | Claims Payments | Year-End Balance |
|--------------------------------|---|----------------------------|-----------------------------|
| \$ 1,021,196 | \$ 1,447,760 | \$ 1,815,406 | \$ 653,550 |

11. RISK MANAGEMENT

The School District's risk management program deals with the efficient operations of the commercial insurance programs that provide financial protection to the School District. These programs include property insurance, several lines of liability insurance, and workers' compensation insurance. There

have been no significant changes in the insurance programs from the prior year. For the prior three years, the amount of claims payments has not exceeded the amount of insurance coverage.

The School District has the normal exposures to loss that are part of any large organization. The School District is a public facility that teaches and supervises over 65,000 students, employs over 10,000 people to accomplish these functions, and provides these services in over 110 facilities located throughout the City and County of Denver. Exposures to loss include theft of property, tort claims, and errors and omissions on the part of School District employees or Board members. A summary of the change in the liability for estimated insurance claims is as follows:

| Beginning Liability | Current Year Claims and Change in Estimate | Claims Payments | Year-End Balance |
|---------------------|--|-----------------|------------------|
| \$ 625,000 | \$ 639,579 | \$ 347,239 | \$ 917,340 |

The School District participates in the Colorado School District's Self-Insurance Pool (the Pool) for liability and property coverage. The Pool provides coverages to its members for accidental losses as well as services to help reduce losses and costs incurred in handling claims. In return for these services the School District pays premiums and assists the Pool in settling losses. Furthermore, the School District's responsibilities include working toward reducing the exposures that cause losses. Property loss claims are handled primarily through School District resources, and claims that allege injury to the public or students are forwarded to the Pool for claims management.

The School District retains a certain level of all liability losses. For the year ended June 30, 1996, the School District retained \$50,000 of each liability loss. For the same period the retention level for each property claim was \$100,000. These deductible levels were arrived at after reviewing the average historical losses and determining the amount of each loss the School District could pay directly. The goal is to retain the highest level of each loss that makes economical sense. During the year ended June 30, 1995 the School District adopted Governmental Accounting Standards Board Statement No. 10, "*Accounting and Financial Reporting for Risk Financing and Related Insurance Losses*" which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. As a result, a liability of \$917,340 has been established at June 30, 1996.

The workers' compensation insurance program for the plan year ended June 30, 1996 was a guaranteed cost program through the Colorado Compensation Insurance Authority. There were no self-insured deductibles or retentions as part of this program. Additionally, there are no outstanding liabilities as of June 30, 1996.

12. LITIGATION AND CONTINGENCIES

The School District is a party to numerous pending or threatened lawsuits, under which it may be required to pay certain amounts upon final disposition of these matters. After consulting with counsel, the School District's management has concluded that no significant adverse effect on the June 30, 1996 financial statements should result upon final disposition of these proceedings.

The School District has a potential liability relating to the "Asbestos Hazard Emergency Response Act" (the Act), which is a federally funded hazardous material/asbestos management program administered

by the State Health Department. It is not possible at this time to estimate the amount of expenditures which will be required to comply with the Act. It is expected that these expenditures will not have a significant impact on the financial position of the School District.

Under terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The School District's management believes disallowances, if any, will be immaterial.

13. COLORADO DEPARTMENT OF EDUCATION CDE-3 REPORT

For the year ended June 30, 1996, the District is in compliance with the CDE-3 expenditure allocation requirements and the Financial Policies and Procedures Handbook.

14. STATEWIDE FISCAL MATTERS

At the general election held November 3, 1992, the voters of the State approved an amendment to the Colorado Constitution limiting the ability of the State and local governments such as the School District to increase revenues, debt and spending, and restricting property, income and other taxes. In addition, the amendment requires that the State and local governments obtain voter approval to create any "multiple fiscal year direct or indirect debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years." The amendment excepts from its restrictions the borrowings and fiscal operations of "enterprises." Enterprises are defined to include government owned businesses authorized to issue their own revenue bonds and receiving under 10% of their revenues in grants from all Colorado State and local governments combined. The amendment also requires the establishment of an "Emergency Reserve" equal to two percent of fiscal year spending excluding debt service for fiscal year 1996 and three percent of fiscal year spending excluding debt service for all later years. As of June 30, 1996, the School District has established an emergency reserve of \$9.3 million and \$1 million in the General Fund and Capital Reserve Fund, respectively.

15. SUBSEQUENT EVENT

In October 1996, the School District issued \$38,285,000 in certificates of participation for the purpose of refunding 45% of the outstanding certificates and to provide funding to renovate, equip, acquire, and construct certain facilities and to purchase technology equipment and buses totaling approximately \$22,700,000. Interest on these certificates, at 4.5% - 5.7%, are payable semi-annually beginning June 15, 1997. Annual maturities start on December 15, 2000 and end in 2011.

* * * * *

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APPENDIX B

CONTINUING DISCLOSURE AGREEMENT

This Agreement dated as of July 1, 1997 between SCHOOL DISTRICT NO. 1, IN THE CITY AND COUNTY OF DENVER AND STATE OF COLORADO (the "District") and BANK ONE, COLORADO, N.A., (the "Dissemination Agent").

RECITALS

WHEREAS, the Taxable Pension Certificates of Participation dated as of July 1, 1997 (the "Certificates") are being issued in the aggregate principal amount of \$384,167,520.55 to refinance all of the estimated unfunded accrued actuarial liability of the District's retirement fund; and

WHEREAS, the Certificates represent the right of holders to receive a proportionate share of payments pursuant to a Lease Purchase Agreement dated as of July 1, 1997 (the "Lease") between the District, as lessee, and Denver School Facilities Leasing Corporation, as lessor (the "Lessor"); and

WHEREAS, in order to allow the underwriters of the Certificates to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12) (the "Rule"), the District is required to make certain continuing disclosure undertakings for the benefit of holders of the Certificates; and

WHEREAS, this Agreement is intended to satisfy the requirements of the Rule.

NOW THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Lease, the Mortgage and Indenture of Trust dated as of July 1, 1997 (the "Indenture") between the Lessor and Bank One, Colorado, N.A., or parenthetically defined herein, which apply to any capitalized terms used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Agreement.

"Dissemination Agent" shall mean, initially, Bank One, Colorado, N.A., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 4 of this Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
P. O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street
New York, NY 10014-3669
Phone: (212) 807-5001
Fax: (212) 989-9282
E-mail: Disclosure@Muller.com

Disclosure, Inc.
5161 River Road
Bethesda, MD 20816-1584
Attn: Document Acquisitions/Municipal Securities
Phone: (301) 718-2390 (for issuer-related questions)
Fax: (301) 951-1366
E-mail: Sherri.sewalt@Disclosure.com

Kenny Information Systems, Inc.
65 Broadway - 16th Floor
New York, NY 10006-2503
Attn: Kenny Repository Service
Phone: (212) 770-4595
Fax: (212) 797-7994

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, NY 10007
Phone: (800) 339-6306
Fax: (212) 553-1460

R. R. Donnelley Financial
Municipal Securities Disclosure Archive
559 Main Street
Hudson, MA 01749
Phone: (800) 580-3670
Fax: (508) 562-1969
E-mail: Sspotkill@rrdfin.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

"Participating Underwriter" shall mean the original underwriters of the Certificates required to comply with the Rule in connection with an offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of Colorado as a state information depository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

SECTION 2. Provision of Annual Reports.

a. The District shall, while any Certificates are Outstanding, provide the Annual Report to the Dissemination Agent at least five (5) business days prior to the beginning of the seventh (7th) month following the end of the District's fiscal year, beginning with respect to the District's fiscal year ending June 30, 1997, and the Dissemination Agent shall provide to the Certificate Insurer and to each then existing Repository the Annual Report within four (4) business days of the day it receives it while any Certificates are Outstanding. The District shall include with each submission of the Annual Report to the Dissemination Agent a written representation addressed to the Dissemination Agent to the effect that the Annual Report is the Annual Report required by this Agreement and that it complies with the applicable requirements of this Agreement.

b. If the District is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal

Securities Rulemaking Board ("MSRB") and to the State Repository, if any, in substantially the form attached as Exhibit A.

c. The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(2) file a report with the District certifying the Annual Report has been provided pursuant to this Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 3. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

a. A copy of its annual financial statements prepared in accordance with generally accepted accounting principles audited by a firm of certified public accountants. If audited annual financial statements are not available by the time specified in Section 2(a) above, unaudited financial statements will be provided as part of the Annual Report and audited financial statements will be provided when and if available.

b. An update of the information of the type contained in the tables in the Official Statement, identified in Exhibit B hereto.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such document incorporated by reference.

SECTION 4. Reporting of Significant Events. The District shall provide or cause to be provided, in a timely manner, to the Dissemination Agent, and the Dissemination Agent shall promptly provide to the MSRB, the State Repository, if any, and the Certificate Insurer, notice of any of the following events with respect to the Certificates, if such event is material:

- a. Principal and interest payment delinquencies;
- b. Non-payment related defaults;
- c. Unscheduled draws on debt service reserves reflecting financial difficulties;
- d. Unscheduled draws on credit enhancements reflecting financial difficulties;

- e. Substitution of credit or liquidity providers, or their failure to perform;
- f. Adverse tax opinions or events affecting the tax-exempt status of the Certificates;
- g. Modifications to rights of Certificate holders;
- h. Certificate calls;
- i. Defeasances;
- j. Release, substitution or sale of property securing repayment of the Certificates; or
- k. Rating changes.

SECTION 5. Termination of Reporting Obligation. The District's obligations under this Agreement shall terminate upon the earliest of: (i) the date of legal defeasance, prior redemption or payment in full of all of the Certificates; (ii) the date that the District shall no longer constitute an "obligated person" within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Certificates.

SECTION 6. Amendment; Waiver. Notwithstanding any other provision of this Agreement, the District and the Dissemination Agent may amend this Agreement, and any provision of this Agreement may be waived, without the consent of the holders of the Certificates, if such amendment or waiver does not, in and of itself, cause the undertakings herein (or action of any Participating Underwriter in reliance on the undertakings herein) to violate the Rule, but taking into account any subsequent change in or official interpretation of the Rule. The District will provide notice of such amendment or waiver to the Repository.

SECTION 7. Additional Information. Nothing in this Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to what which is specifically required by this Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 8. Default. In the event of a failure of the District to comply with any provision of this Agreement, any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an event of default under the Lease or the Indenture, and the sole remedy under this Agreement in the event of any failure of the District to comply with this Agreement shall be an action to compel performance. Neither the Lessor nor the Dissemination Agent shall have any power or duty to enforce this Agreement.

SECTION 9. Resignation or Termination. The present or any future Dissemination Agent may resign by giving the District written notice of such resignation. The present or any future Dissemination Agent may be removed by the District giving written notice of such removal. Such resignation or removal shall take effect immediately on the appointment of a successor, but in no event earlier than thirty days after such written notice has been given. If the Dissemination Agent also serves as the Trustee under the Indenture pursuant to which the Certificates are issued, the Dissemination Agent may resign or be removed under this Agreement without resigning or being removed as Trustee under the Indenture. In case the present or any future Dissemination Agent shall at any time resign or be removed or otherwise become incapable of acting, a successor may be appointed by the District. The new Dissemination Agent shall forthwith give notice thereof to the Repository and MSRB.

SECTION 10. Compensation. As compensation for its services under this Agreement, the Dissemination Agent shall be compensated or reimbursed by the District for its reasonable fees and expenses in performing the services specified under this Agreement.

SECTION 11. Indemnification. The Dissemination Agent shall have only the duties as are specifically set forth in this Agreement and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents harmless against any loss, expenses and liabilities which it may incur arising out of the exercise or performance of its duties and/or powers hereunder, including the fees and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this section shall survive the resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 12. Beneficiaries. This Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter, the holders and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the District and the Dissemination Agent have caused this Agreement to be executed in their respective names, all as of the date first above written.

SCHOOL DISTRICT NO. 1, IN THE CITY
AND COUNTY OF DENVER AND STATE OF
COLORADO

By: _____
President

BANK ONE, COLORADO, N.A., as
Dissemination Agent

By: _____
Vice President

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: School District No. 1, in the City and County of Denver and State of Colorado

Name of Issue: School District No. 1, in the City And County of Denver and State of Colorado, Lease Purchase Agreement, Taxable Pension Certificates of Participation, dated July 1, 1997, in the aggregate principal amount of \$384,167,520.55.

Date of Issuance: July 17, 1997

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 2.1 of the Lease Purchase Agreement dated as of July 1, 1997 (the "Lease"), between the District, as lessee, and Denver School Facilities Leasing Corporation, as lessor, and the Continuing Disclosure Agreement dated as of July 1, 1997 between the District and Bank One, Colorado, N.A. The District anticipates that the Annual Report will be filed by _____.

Dated: _____,

SCHOOL DISTRICT NO. 1, IN THE CITY
AND COUNTY OF DENVER AND STATE OF
COLORADO

By: _____
Its: _____

EXHIBIT B
OFFICIAL STATEMENT TABLES TO BE UPDATED

THE DISTRICT--District Employees and Labor Relations

- (1) Certificated Employees

THE DISTRICT--Population and Enrollment

- (2) District Enrollment

THE DISTRICT--Historical General Fund Financial Information

- (3) General Fund Comparative Statement of Revenues, Expenditures and Changes in Fund Balance

THE DISTRICT--Budget Process and Information

- (4) General Fund Budget Summary and Comparison

THE DISTRICT--Historical Property Tax Collections and Mill Levies

- (5) District Mill Levy History
(6) History of Assessed Valuation
(7) Assessed Valuation of Classes of Property in the District
(8) Historical Property Tax Collections
(9) Ten Largest Taxpayers Within the District
(10) Sample Total Mill Levy

DEBT AND OTHER FINANCIAL OBLIGATIONS

- (11) Debt and Population Ratios (only to the extent that such debt ratios refer to the direct debt of the District)

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APPENDIX C

CERTAIN DEFINITIONS AND SUMMARIES OF CERTAIN PROVISIONS OF THE LEASE AND THE INDENTURE

Set forth below are the definitions of some of the terms used in this Official Statement, the Lease and the Indenture and summaries of certain provisions of the Lease and the Indenture. These summaries do not purport to be definitive summaries of all provisions of the Lease or the Indenture; reference must be made to those documents in order to obtain descriptions of all provisions. Copies of the Lease and the Indenture may be obtained from the Trustee or the District or, during the period of the offering, from the Underwriters.

DEFINITIONS

"Additional Certificates" means additional certificates, if any, issued pursuant to the Indenture. See "APPENDIX C-THE INDENTURE--Additional Certificates."

"Additional Rentals" means the cost of all taxes, insurance premiums, reasonable expenses and fees of the Trustee, reasonable expenses of the Lessor in connection with the Leased Property, utility charges, costs of maintenance, upkeep and repair, payments to any Surety Provider as a result of draws of amounts available under a Qualified Surety Bond, Reserve Fund payments, and all other charges and costs, which the District assumes or agrees to pay under the Lease with respect to the Leased Property. Additional Rentals do not include the Base Rentals or the Purchase Option Price.

"AMBAC Indemnity" means AMBAC Indemnity Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

"Appreciated Value"means, with respect to each date set forth in the table in Appendix F of this Official Statement, for each Capital Appreciation Certificate, the aggregate principal and interest (per \$5,000 Value at Maturity of such Certificate) set forth in such table. The Appreciated Value for any Capital Appreciation Certificate (per \$5,000 Value at Maturity of such Certificate) with respect to any date other than a date stated in such table, and prior to the stated maturity of such Capital Appreciation Certificate, shall be determined conclusively by the Trustee or a certified public accountant selected by the Trustee, interpolating such Appreciated Value, using the straight line method, by reference to the Appreciated Values for the dates listed on such table which are immediately prior to and immediately subsequent to such date, and the number of calendar days elapsed since the date listed which is immediately prior to such date. All references to "interest" on any Certificate in this Indenture shall, with respect to the Capital Appreciation Certificates, unless the context clearly indicates otherwise, refer to the excess of the Appreciated Value over the original principal amount of such Capital Appreciation Certificates, as of any relevant date.

"Authorized Denominations" means, with respect to the Current Interest Certificates, denominations of \$5,000 or integral multiples thereof; with respect to the Capital Appreciation Certificates, denominations of \$5,000 Value at Maturity or integral multiples thereof; provided that no Certificate may be issued in a denomination which exceeds the aggregate principal amount of Certificates coming due on any maturity date, and no individual Certificate will be issued for more than one maturity.

"Base Rentals" means the payments payable by the District from its general fund pursuant to the Lease (excluding the Additional Rentals), as it may be amended, during the Lease Term, which constitute the payments payable by the District for and in consideration of the right to use the Leased Property during the Lease Term.

"Buildings" mean the buildings generally described in the Lease which are located on the Land, including but not limited to all property permanently affixed to the Land or the Buildings.

"Capital Appreciation Certificates" means the Certificates maturing on December 15, 2013, December 15, 2014, December 15, 2015, December 15, 2016 and December 15, 2017.

"Certificate Insurer" means with respect to the Certificates, AMBAC Indemnity and, with respect to any series of Additional Certificates, the issuer of a policy of insurance insuring the payment when due of the principal and interest on such Additional Certificates.

"Certificate Owner" means the registered owner of any of the Certificates as shown on the registration records of the Trustee.

"Certificates" means the Taxable Pension Certificates of Participation, Series 1997, issued hereunder, which evidence assignments of proportionate interests in rights to receive Revenues and includes both the Current Interest Certificates and Capital Appreciation Certificates.

"Completion Date" means the date on which the District certifies that the Project has been completed and accepted by the District.

"Current Interest Certificates" means all of the Certificates other than Capital Appreciation Certificates.

"Deed" means the deed executed and delivered concurrently with the Lease whereby the Lessor acquired all the right, title and interest of the District in the Land and the Buildings constituting the Leased Property, subject to Permitted Encumbrances.

"Effective Interest Rate" means the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law; provided, however, that the Effective Interest Rate shall in no event be less than the interest rate on the Certificates.

"Event of Nonappropriation" means a termination of the Lease by the District, determined by the Board's failure, for any reason, to specifically budget and appropriate moneys to pay all Base Rentals and reasonably estimated Additional Rentals. An Event of Nonappropriation may also occur under circumstances of damage, destruction or condemnation of the Leased Property as provided in the Lease. See "APPENDIX C-THE LEASE--Damage, Destruction or Condemnation."

"Extraordinary Revenues" means (i) the Purchase Option Price, if paid; (ii) all Net Proceeds, if any, of casualty insurance, title insurance, and condemnation awards in connection with the Leased Property not applied to the repair, restoration, modification, improvement or replacement of the Leased Property; and (iii) all Net Proceeds, if any, derived from the foreclosure through the courts on and sale, other liquidation or disposition of, the Leased Property, or leasing of the Leased Property, if any, pursuant to the Indenture.

"Fiscal Year" means any 12 month period constituting the District's legal fiscal year.

"Force Majeure" means, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials or any civil or military authority; insurrections; riots; landslides, earthquakes; fires, storms; droughts; floods; explosions; breakage or accidents to machinery, transmission pipes or canals; or other causes not within the control of the District.

"Land" means the real estate, the legal description of which is set forth in the Lease (subject to the provisions of Sections 10.1, 11.4, 11.5 and 12.4 of the Lease), which is leased by the Lessor to the District under the Lease.

"Lease Term" means the time during which the District is lessee of the Leased Property under the Lease; certain provisions of the Lease survive the termination of the Lease Term.

"Leased Property" means collectively, the Land and the Buildings and includes all property permanently affixed to the Land.

"Net Proceeds," when used with respect to proceeds of insurance required by the Lease or any condemnation award, or proceeds derived from any foreclosure through the courts on and sale, other liquidation or disposition of, the Leased Property, or leasing of the Leased Property, means the amount remaining after deducting from such proceeds thereof (i) all expenses (including, without limitation, attorneys' fees and costs) incurred in the collection of such proceeds or award; and (ii) all other fees, expenses and payments due to the Trustee or the Lessor.

"1997 Policy" means the policy of insurance issued by AMBAC Indemnity insuring the payment when due of the principal of and interest on the Certificates.

"1997 Surety Bond" means the surety bond issued by AMBAC Indemnity and deposited into the Reserve Fund to guaranty certain payments from the Reserve Fund.

"1997 Surety Bond Coverage" means the amount available at any particular time to be paid to the Trustee under the terms of the 1997 Surety Bond, which amount shall never exceed \$11,596,792.75.

"1997 Surety Bond Payment" means an amount equal to the payment due on the Certificates on any interest payment date less the amount thereof paid from Base Rentals and other moneys available to the Trustee for such payment, all certified in a demand for payment pursuant to the terms of the 1997 Surety Bond.

"Owner" or "registered owner" means the registered owner of any Certificate or Additional Certificate as shown in the registration records of the Trustee.

"Permitted Encumbrances" means, as of any particular time, (i) liens for taxes and assessments not then delinquent, or liens which may remain unpaid pursuant to the provisions of Articles VIII and IX of the Lease; (ii) the Lease and the Indenture; (iii) utility, access and other easements and rights of way, restrictions and exceptions which the District's representative certifies will not interfere with or impair the effective use or operation of the Leased Property, including rights or privileges in the nature of easements as provided in the Lease; (iv) any financing statements filed to perfect security interests pursuant to the Lease or the Indenture; (v) any subleases entered into pursuant to the Lease; and (vi) those easements, rights of way, encumbrances, restrictions and exceptions set forth in an Exhibit to the Lease.

"Permitted Investments" means investments or deposits which are legal investments or deposits for the District under the then applicable laws of the State and which are one of the following:

(a) The following obligations to be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

(b) The following obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) 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
- Rural Economic Community Development Administration (formerly the 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;

(2) senior debt obligations rated "AAA" by Standard & Poor's Corporation ("S&P") and "Aaa" by Moody's Investors Service, Inc. ("Moody's") issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Senior debt obligations of other Government Sponsored Agencies approved by AMBAC Indemnity;

(3) 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);

(4) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's, and which matures not more than 270 days after the date of purchase;

(5) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded Municipal Obligations defined as follows: 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 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;

(7) investment agreements approved in writing by AMBAC Indemnity [supported by appropriate opinions of counsel] with notice to S&P; and

(8) other forms of investments (including repurchase agreements) approved in writing by AMBAC with notice to S&P.

(c) The value of the above investments shall be determined as follows:

"Value," which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(1) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination or the bid price published by a nationally recognized pricing service;

(2) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(3) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and

(4) as to any investment not specified above: the value thereof established by prior agreement between the District, the Trustee and AMBAC Indemnity.

"Policy" means the 1997 Policy and one or more policies of insurance issued by a Certificate Insurer insuring the payment when due of the principal of and interest on the Additional Certificates without regard to acceleration or advancement of maturity or redemption prior to maturity, other than mandatory sinking fund redemption, if any.

"Project" means the refinancing of all of the currently estimated unfunded accrued actuarial liability of the District's retirement fund.

"Project Costs" shall be deemed to include payment of or reimbursement for the following items with respect to the Project:

(a) the deposit to the District's retirement fund to refinance the currently estimated unfunded accrued actuarial liability; and

(b) costs incurred in connection with the Certificates, including the initial compensation and expenses of the Trustee prior to the Completion Date, any fees and expenses of the Lessor prior to the Completion Date, legal fees and expenses, costs incurred in obtaining ratings from rating agencies, the premium for the 1997 Surety Bond and 1997 Policy, accounting fees and expenses, costs of publication, printing and engraving, and recording and filing fees.

"Purchase Option Price" means the amount payable, at the option of the District, for the purpose of terminating the Lease and purchasing the Leased Property, which amount must be the amount necessary to discharge the Indenture as provided in Article VI thereof. The Purchase Option Price also includes all fees and expenses due to the Trustee.

"Qualified Surety Bond" means any unconditional and irrevocable surety bond or other insurance policy deposited in the Reserve Fund in lieu of or in partial substitution for moneys on deposit therein, the Surety Provider of which is rated in the highest rating category by every rating agency then rating the Certificates.

"Reimbursement Rate" means Citibank's prime rate plus two (2) percent per annum, as of the date of such 1997 Surety Bond Payment, said "prime rate" being the rate of interest announced from time to time by Citibank, New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of a 360 day year.

"Reserve Fund Requirement" means one-half of the maximum interest on the Outstanding Certificates (excluding the Capital Appreciation Certificates) and Additional Certificates for any Fiscal Year from the time of determination through final maturity of the Certificates and any Additional Certificates, as determined at the time of issuance of the Certificates or Additional Certificates, as the case may be.

"Revenues" means (i) Extraordinary Revenues, if any; (ii) the Base Rentals; (iii) any portion of the proceeds of the Certificates or Additional Certificates deposited with the Trustee in the Certificate Fund to pay accrued interest on the Certificates or Additional Certificates; (iv) any earnings on moneys on deposit in the Certificate Fund; (v) all other revenues derived from the Lease, excluding Additional Rentals (other than Reserve Fund payments made to the Trustee pursuant to Section 3.03 of the Indenture), excluding payments constituting compensation to the Trustee for its

services or reimbursement to the Trustee or the Lessor for costs or expenses; and (vi) any other moneys to which the Trustee may be entitled for the benefit of the Certificate Owners.

"Surety Provider" means with respect to the Certificates, AMBAC Indemnity, and with respect to Additional Certificates, the entity or entities providing a Qualified Surety Bond or Bonds or its or their successors.

"Value at Maturity" means, with respect to a Capital Appreciation Certificate, the aggregate principal and interest due and payable at the stated maturity of such Capital Appreciation Certificate.

THE LEASE

The following is a summary of certain provisions of the Lease. Reference is hereby made to the actual Lease for a complete recital of its terms.

The Lease Term

The Lease Term commences as of the date of the Lease. The Lease Term will terminate upon the earliest of any of the following events: (a) the last day of any Fiscal Year during which there occurs an Event of Nonappropriation pursuant to the Lease (provided that the Lease Term will not be deemed to have been terminated in the event that the Event of Nonappropriation is cured as provided in the Lease); (b) the purchase by the District of the Leased Property, as more fully provided in the Lease; (c) an Event of Default and termination of the Lease by the Trustee; (d) conveyance of the Leased Property to the District upon payment by the District of all Base Rentals for the entire maximum Lease Term and all then current Additional Rentals; or (e) discharge of the Indenture as provided therein.

The exercise of the District's annual option to terminate the Lease will be conclusively determined by whether or not the District has, on or before the last day of each Fiscal Year, specifically budgeted and appropriated moneys to pay all Base Rentals and reasonably estimated Additional Rentals. See "APPENDIX C-THE LEASE--Nonappropriation by the District." The District Superintendent (or any other officer at any time charged with the responsibility of formulating budget proposals with respect to any Leased Property under the Lease) is directed to include, in the annual budget proposals submitted to the Board, items for all payments required under the Lease during the next ensuing Fiscal Year, until such time, if any, as the District may determine to terminate the Lease; it being the intention of the District that any decision to terminate the Lease be made solely by the Board and not by any official of the District.

Termination of the Lease Term will terminate all unaccrued obligations of the District under the Lease and will terminate the District's rights of possession under the Lease (except to the extent of the holdover provisions of the Lease and except for any conveyance to the District pursuant to the Lease); but all other provisions of the Lease, including all obligations of the District accrued

prior to the termination, and all other obligations of the Trustee with respect to the Owners and the receipt and disbursement of funds will be continuing until the Indenture is discharged, as provided in the Indenture.

Base Rentals and Additional Rentals

The Base Rentals and Additional Rentals constitute currently appropriated expenditures of the District and may be paid from any legally available funds. The District's obligations under the Lease are subject to the District's right to terminate the Lease and do not constitute a mandatory charge or requirement in any ensuing Fiscal Year beyond the then current Fiscal Year and do not constitute a multiple fiscal year direct or indirect District debt or other financial obligation whatsoever. No provision of the Lease is to be construed or interpreted as creating a general obligation or other indebtedness of the District within the meaning of any constitutional or statutory debt limitation. Neither the Lease nor the issuance of the Certificates directly or indirectly obligates the District to make any payments beyond those specifically appropriated by the District for its then current Fiscal Year.

Under the Lease, the District is required to pay Base Rentals directly to the Trustee for distribution to the Owners in accordance with the Indenture during the Lease Term. Certain credits against Base Rentals are permitted. See "APPENDIX C-THE INDENTURE--Funds and Accounts."

The Lease also requires the District to pay Additional Rentals during the Lease Term. The Additional Rentals during the Lease Term are required under the Lease to be in an amount sufficient to pay the following costs during the next ensuing Fiscal Year: (i) the reasonable fees and expenses of the Trustee and the Lessor; (ii) the cost of insurance premiums; (iii) the cost of taxes, utility charges, maintenance, upkeep and repair costs and (iv) payments into the Reserve Fund required by the Indenture or payments to the Surety Provider. To the extent that Reserve Fund moneys are applied pursuant to the Indenture, the District is required to (i) pay to the Trustee for deposit in the Reserve Fund as Additional Rentals such amounts as are required to restore the amount on deposit in the Reserve Fund to the Reserve Fund Requirement or (ii) cause to be deposited in the Reserve Fund a Qualified Surety Bond in an amount which, together with any moneys then contained in the Reserve Fund, will be sufficient to restore the amount on deposit in the Reserve Fund to the Reserve Fund Requirement, on or before the first day of the fourth month of the Fiscal Year following such withdrawal of moneys from the Reserve Fund; unless the Lease has theretofore been terminated by the District and except as expressly provided in the Indenture.

The Additional Rentals will be paid by the District on a timely basis directly to the person or entity to which such Additional Rentals are owed, except that Reserve Fund payments will be made to the Trustee as provided in the Indenture.

The Base Rentals and, if paid, the Purchase Option Price are payable by lawful money of the United States of America to the Trustee at its principal operations office. During the Lease

Term, the District is not to withhold any Base Rentals or Additional Rentals (with certain exceptions as to Additional Rentals as provided in the Lease), pending final resolution of any dispute, nor may it assert any right of set-off or counter-claim against its obligation to make such payments.

Nonappropriation by the District

If the Board does not appropriate by the last day of each Fiscal Year moneys from the District's general fund to pay all Base Rentals and sufficient amounts to pay such Additional Rentals as are estimated to become due (as provided in the Lease), an Event of Nonappropriation will be deemed to have occurred; provided that (a) the Trustee will declare an Event of Nonappropriation on any earlier date on which the Trustee receives official, specific written notice from the District that the Lease will be terminated; (b) absent such notice from the District, the Trustee is required to give written notice to the District of any Event of Nonappropriation, on or before the 6th day of the next ensuing Fiscal Year; but any failure of the Trustee to give such written notice will not prevent the Trustee from declaring an Event of Nonappropriation or from taking any remedial action which would otherwise be available to the Trustee; (c) subject to the terms of the Indenture, the Trustee, with the written consent of the Certificate Insurer, may waive any Event of Nonappropriation which is cured by the District within a reasonable time if in the Trustee's judgment such waiver is in the best interest of the Owners; and (d) the Trustee is required to waive any Event of Nonappropriation, which is cured by the District by appropriating, within 45 days of the giving of notice by the Trustee as provided in (b) above, or by the first day of the second month of the ensuing Fiscal Year, whichever is earlier, moneys sufficient to pay all Base Rentals and reasonably estimated Additional Rentals coming due for such Fiscal Year.

In the event that during any Fiscal Year, any Additional Rentals become due in excess of amounts included in the District's current budget and appropriations, and if there are no moneys available to pay such Additional Rentals pursuant to the Indenture, then, in the event that moneys are not specifically budgeted and appropriated to pay such Additional Rentals by the last day of such Fiscal Year, an Event of Nonappropriation shall be deemed to have occurred, subject to the provisos stated in clauses (a) through (d) above.

If an Event of Nonappropriation occurs, the District will not be obligated to make payment of the Base Rentals or Additional Rentals or any other payments provided for in the Lease beyond the amounts specifically appropriated by the District for the Fiscal Year during which such Event of Nonappropriation occurs; provided, however, that the District will continue to be liable (subject to certain exceptions) for Base Rentals and Additional Rentals allocable to any period during which the District continues to occupy or retain possession of the Leased Property. The District is required, in all events, to vacate the Leased Property to the Trustee by the first day of the second month following the end of any Fiscal Year during which an Event of Nonappropriation occurs.

Upon the occurrence of an Event of Nonappropriation, the Trustee will be entitled to all moneys then on hand and being held in all funds created under the Indenture, excluding any

moneys in any defeasance escrow account, for the benefit of the Owners and the Certificate Insurer. After the expiration of the Fiscal Year during which an Event of Nonappropriation occurs and in the event that payments under the Policy shall be insufficient to pay the principal of and interest on the Certificates and Additional Certificates when due, or in the event that the Certificate Insurer shall so direct the Trustee, the Trustee shall proceed to foreclose through the courts on and sell, or otherwise liquidate or dispose of, the Leased Property. See "APPENDIX C-THE LEASE--Events of Default and Remedies". All property, funds and rights acquired by the Trustee upon the termination of the Lease by reason of an Event of Nonappropriation, less any moneys due and owing to the Trustee, will be held by the Trustee for the benefit of the Owners and the Certificate Insurer as set forth in the Indenture.

Reimbursement for Payments under the 1997 Surety Bond and Expenses

If the Trustee draws under the 1997 Surety Bond as provided in Section 10.03 of the Indenture, the District agrees to repay AMBAC Indemnity with interest at the Effective Interest Rate in accordance with the terms of the Lease; subject, however, to the limitations provided in the Lease concerning termination of the Lease due to the occurrence of an Event of Nonappropriation. Reimbursement of draws on the 1997 Surety Bond will be an Additional Rental.

The Project

Upon completion of the Project, the District's representative is required to deliver to the Lessor and the Trustee a certificate stating that, to the best of the District's knowledge, and except for any amounts estimated by the District's representative to be necessary for payment of any Project Costs not then due and payable, the Project has been completed, and all Project Costs have been paid. Notwithstanding the foregoing, such certificate will not, and will state that it does not, prejudice any rights against third parties which exist on the date of such certificate or which may subsequently come into being.

Title to the Leased Property

Title to the Leased Property and any and all additions and modifications thereto and replacements thereof (excluding any personal property purchased solely with funds of the District) will be held in the name of the Lessor, subject to the Lease and the Indenture, until conveyed, liquidated or otherwise disposed of pursuant to the Indenture or the Lease. Concurrently with the execution and delivery of the Lease, the Trustee will receive a commitment for a standard mortgagee's title insurance policy insuring the Lessor's fee simple title to the Land, subject to Permitted Encumbrances, in an amount of \$200,000,000 or such lesser amount as shall be the maximum insurable value of the Leased Property.

Pursuant to the Lease, the District may not permit any mechanic's or other lien to remain against the Leased Property. The District may, on prior notice to the Trustee, in good faith contest any such liens, and may permit the items so contested to remain undischarged and unsatisfied

during the period of such contest and any appeal therefrom, unless in the opinion of independent counsel retained by the Trustee, by nonpayment of any such items the Lessor's title to the Leased Property or the lien on the Leased Property will be materially endangered, or the Leased Property or any part of the Leased Property will be subject to loss or forfeiture. The District and the Lessor are also prohibited under the Lease from creating, incurring or assuming any mortgage, pledge, lien, charge, encumbrance or claim with respect to the Leased Property, except Permitted Encumbrances.

Maintenance and Modification of the Leased Property

Pursuant to the Lease, the District will cause the Leased Property to be kept in good repair, working order and condition, subject to normal wear and tear, and will from time to time make or cause to be made all necessary and proper repairs. Neither the Lessor, the Trustee nor any of the Owners is responsible in any of these matters or for making additions, modifications or replacements to the Leased Property.

The District is granted under the Lease the privilege of remodeling or making substitutions, additions, modifications or improvements to the Leased Property, at its own cost and expense, and the same will be the property of the Lessor subject to the Lease and the Indenture, and will be included under the terms of the Lease and the Indenture. Any such remodeling, substitutions, additions, modifications and improvements may not in any way damage the Leased Property or cause it to be used for purposes other than lawful governmental functions of the District. The Leased Property, as remodeled, improved or altered, upon completion of such remodeling or such making of substitutions, additions, modifications and improvements, is required to be of a value not less than the value of the Leased Property immediately prior to any of these actions.

The District may also, from time to time in its sole discretion and at its own expense, install machinery, equipment and other tangible property in or on the Leased Property. All such machinery, equipment and other tangible property is to remain the sole property of the District in which neither the Lessor, the Trustee nor the Owners will have any interest. However, title to any such machinery, equipment and other tangible property which becomes permanently affixed to the Leased Property will be in the Lessor, subject to the Lease and the Indenture, and will be included under the terms of the Lease and the Indenture, in the event the Trustee reasonably determines that the Leased Property would be damaged by the removal of such machinery, equipment or other tangible property.

Taxes, Other Governmental Charges and Utility Charges

In the event that the Leased Property or any portion thereof is, for any reason, deemed subject to taxation, assessments or charges lawfully made by any governmental body, the District is required to pay the amount of all such taxes, assessments and governmental charges then due as Additional Rentals. With respect to special assessments or other governmental charges that may be lawfully paid in installments over a period of years, the District will be obligated to provide only for such installments as are required to be paid during the upcoming Fiscal Year. The District is not

permitted to allow any liens for taxes, assessments or governmental charges to exist with respect to the Leased Property or any portion thereof (including, without limitation, any taxes levied upon the Leased Property or any portion thereof, which, if not paid, will become a charge on the rentals and receipts from the Leased Property or any portion thereof, or any interest therein, including the interest of the Lessor, the Trustee, or the Owners), or the rentals and revenues derived therefrom or under the Lease. The District must also pay as Additional Rentals, as the same respectively become due, all gas, water, steam, electricity, heat, power, utility and other charges incurred in the maintenance and upkeep of the Leased Property.

The District may, on prior notice to the Trustee and at its own expense, in good faith contest any such tax, assessment, utility and other charges and, in the event of any such contest, may permit the tax, assessment, utility or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee notifies the District that, in the opinion of independent counsel, by nonpayment of any such items the security afforded pursuant to the Indenture will be materially endangered or the Leased Property or any portion thereof will be subject to loss or forfeiture, or the Lessor or the Trustee will be subject to liability, in which event such tax, assessment, utility or other charges are required to be paid as Additional Rentals (provided, however, that such payment will not constitute a waiver of the right to continue to contest such tax, assessment, utility or other charges).

Insurance to Be Maintained for the Leased Property

Upon the execution and delivery of the Lease, the District shall, at its own expense, cause casualty and property damage insurance to be carried and maintained with respect to the Leased Property in an aggregate amount equal to the lesser of: (i) the principal amount of the Certificates and Additional Certificates then outstanding; or (ii) the replacement value of the Leased Property (excluding foundations). Such insurance policy may have a deductible clause in an amount not to exceed \$100,000. The District may, in its discretion, insure the Leased Property under blanket insurance policies which insure not only the Leased Property, but other buildings as well, as long as such blanket insurance policies comply with the requirements hereof. If the District shall insure against similar risks by self-insurance, the District, at its election, may provide for casualty and property damage insurance with respect to the Leased Property, partially or wholly by means of a self-insurance fund.

Upon the execution and delivery of the Lease, the District shall, at its own expense, cause public liability insurance to be carried and maintained with respect to the activities to be undertaken by and on behalf of the District in connection with the use of the Leased Property, in an amount not less than the limitations provided in the Colorado Governmental Immunity Act (Article 10, Title 24, Colorado Revised Statutes, as heretofore or hereafter amended). Such insurance may contain deductibles and exclusions deemed reasonable by the Board. The public liability insurance required by the Lease may be by blanket insurance policy or policies. If the District shall insure against similar risks by self-insurance, the District, at its election, may provide

for public liability insurance with respect to the Leased Property, partially or wholly by means of a self-insurance fund.

Any casualty and property damage insurance policy required by the Lease shall be so written or endorsed as to make losses, if any, payable to the District, the Lessor, and the Trustee, as their respective interests may appear. Each insurance policy provided for in the Lease shall contain a provision to the effect that the insurance company shall not cancel the policy without first giving written notice thereof to the District, the Lessor and the Trustee at least 10 days in advance of such cancellation. All insurance policies issued pursuant to the Lease, or certificates evidencing such policies, shall be deposited with the Trustee. No agent or employee of the District shall have the power to adjust or settle any loss with respect to the Leased Property, whether or not covered by insurance, without the prior written consent of the Trustee; except that losses not exceeding \$100,000 may be adjusted or settled by the District without the Trustee's consent. The consent of the Lessor shall not be required for any such adjustment or settlement, regardless of the amount of the loss.

The District may only elect to self insure if and to the extent such self-insurance method or plan of protection shall afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by school districts in the State of Colorado other than the District. In the event self-insurance is sought, the following provisions will apply: (i) the self-insurance program will be approved by an independent insurance consultant; (ii) the self-insurance program will be actuarially sound and evaluated on an annual basis; (iii) the self-insurance fund will be held in a separate trust fund by an independent trustee; and (iv) in the event the self-insurance program is discontinued, the actuarial soundness of the claims reserve fund will be maintained. If the District chooses to self-insure, it must additionally provide to the Trustee on or before July 1 of each year a certificate of an independent insurance consultant to the effect that the District's general insurance reserves are adequate to provide the required amount of coverage.

Damage, Destruction or Condemnation

If, during the Lease Term, (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or damaged by fire or other casualty; or (b) title to, or the temporary or permanent use of, the Leased Property or any portion thereof, or the estate of the District, the Lessor or the Trustee, in the Leased Property or any portion thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority; or (c) a breach of warranty or any material defect with respect to the Leased Property becomes apparent; or (d) title to or the use of all or any portion of the Leased Property is lost by reason of a defect in title thereto; then, except as described below, the District is obligated to continue to pay Base Rentals and Additional Rentals, to the extent of amounts specifically appropriated by the District, regardless of whether the certificate of completion as provided for in the Lease has been delivered to the Lessor and the Trustee.

The District, except as described below, is required to cause the Net Proceeds to be deposited in a special account to be held by the Trustee. Except as described below, all Net Proceeds so deposited shall be applied to the prompt repair, restoration, modification, improvement or replacement of the Leased Property by the District upon receipt of requisitions acceptable to the Trustee signed by the District representative stating with respect to each payment to be made: (i) the requisition number; (ii) the name and address of the Person, firm or corporation to whom payment is due or has been made; (iii) the amount to be paid or reimbursed; and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against such account and has not been the basis of any previous withdrawal and specifying in reasonable detail the nature of the obligation, accompanied by a bill, invoice or a statement of account for such obligation. Any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds shall be the property of the Lessor, subject to the Lease and the Indenture, and shall be included as part of the Leased Property under the Lease and the Indenture.

If there occurs an event as described under this caption which results in a frustration of the purpose for which the Leased Property was intended and if any Net Proceeds received as a consequence of such event are insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Leased Property, the District will elect one of the following options: (a) repair, restore, modify or improve the Leased Property and pay any cost in excess of the amount of the Net Proceeds; (b) the obligation of the District to repair or replace the Leased Property may, at the option of the District, be discharged by depositing the Net Proceeds into the Extraordinary Revenue Fund to be used to optionally redeem Certificates or Additional Certificates prior to maturity; (c) apply Net Proceeds (and any additional legally available District moneys as necessary) to the payment of the Purchase Option Price in accordance with the Lease; or (d) if, by the last day of the Fiscal Year in which the insufficiency of Net Proceeds to repair, restore, modify, improve or replace the Leased Property become apparent, the District has not appropriated amounts sufficient to proceed under either clause (a) or paragraph (c) above, an Event of Nonappropriation will be deemed to have occurred. Unless such Event of Nonappropriation is cured as provided in the Lease, the Trustee may pursue its remedies described under "APPENDIX C-THE LEASE--Events of Default and Remedies." See "THE CERTIFICATES --Redemption Provisions."

The District has agreed that any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds will be the property of the Lessor, subject to the Lease and the Indenture, and will be included as part of the Leased Property subject to the Lease and the Indenture.

Granting of Easements

As long as no Event of Nonappropriation or Event of Default shall have happened and is continuing, the Lessor and the Trustee shall at any time or times, but only upon the request of the District, grant easements, licenses, rights-of-way (including the dedication of public highways) and other rights or privileges in the nature of easements with respect to any property or rights included in the Lease and the Indenture, free from the Lease and the Indenture and any security

interest or other encumbrance created under the Lease or the Indenture, and the Lessor and the Trustee shall release existing easements, licenses, rights-of-way and other rights and privileges with respect to such property or rights, with or without consideration, and the Lessor and the Trustee agree to execute and deliver any instrument necessary or appropriate to confirm and grant or release any such easement, license, right-of-way or other grant or privilege upon receipt of: (i) a copy of the instrument of grant or release; (ii) a written application signed by the District representative requesting such instrument and stating that such grant or release will not impair the effective use or interfere with the operation of the Leased Property. The District shall not be entitled to any diminution of the Base Rentals and Additional Rentals payable as a result of any grant or release.

Release and Substitution of Leased Property

If no Event of Default or Event of Nonappropriation has occurred and is continuing, the Lessor and the Trustee are required to release any portion of the Leased Property, and shall execute all documents necessary or appropriate to reconvey such portion of the Leased Property to the District, free of all restrictions and encumbrances imposed or created by the Lease or the Indenture, upon receipt by the Trustee of the following: (a) a written request of the District representative for such release, describing the portion of the Leased Property to be released; (b) written consent of the Certificate Insurer, provided that if the Certificate Insurer is in default under the Policy, then a certificate of the District representative certifying (i) the value of any real property to be substituted for the portion of the Leased Property to be released, as determined by the Board in a duly adopted resolution; (ii) that the disposition of the portion of the Leased Property to be released and the substitution therefor of the real property to be substituted for the portion of the Leased Property to be released (if any) will not materially adversely affect the ability of the District to operate the Leased Property or to fulfill its obligations under the Lease; (iii) that any real property to be substituted for the portion of the Leased Property to be released is necessary or useful to the operation of the Leased Property; and (iv) that the fair value of any real property to be substituted for the portion of the Leased Property to be released, as determined by the Board in a duly adopted resolution, together with remaining Leased Property and cash to be paid by the District to the Trustee, if any, is at least equal to the aggregate principal amount of the Certificates and Additional Certificates then Outstanding; (c) a certified copy of the resolution referred to in clauses (b)(i) and (b)(iv) above; and (d) supplements and amendments to the Lease and the Indenture and any other documents necessary to subject any real property to be substituted for the portion of the Leased Property to be released to the lien of the Indenture. The District agrees that any cash paid to the Trustee pursuant to the provisions of this paragraph will be deposited into the Principal Account or the Interest Account of the Certificate Fund, or both such accounts, as directed by the District.

Release and Conveyance of the Leased Property

The Lessor will transfer and convey the Leased Property to the District in the manner provided in the Lease (a) upon payment of the applicable Purchase Option Price; or (b) upon payment of all Base Rentals for the entire maximum Lease Term and all Additional Rentals then due.

When the principal component of Base Rentals paid by the District, plus the principal amount of any Certificates redeemed through optional redemption, or the total principal amount of Certificates paid or deemed to be paid pursuant to Article VI of the Indenture, equals the amount set forth in Exhibit E to the Lease, the cost of the corresponding portion of the Leased Property set forth in Exhibit E to the Lease (or of any property substituted for such portion of the Leased Property pursuant to any provision of the Lease) shall be deemed to have been fully amortized and the Lessor and the Trustee shall release such portion of the Leased Property (or any property substituted for such portion of the Leased Property pursuant to any provision of the Lease). The Lessor and the Trustee shall execute and deliver to the District all documents necessary or appropriate to convey such portion of the Leased Property to the District, free of all restrictions and encumbrances imposed or created by the Lease or the Indenture. After such release and conveyance, the property so released and conveyed shall no longer be a part of the Leased Property for any purpose of the Lease or the Indenture.

Assignment of the Lease and Subleasing of the Leased Property

The Lessor's rights under the Lease, including rights to receive and enforce payments thereunder, but not including certain other rights with respect to certain fees and expenses under the Lease, have been assigned to the Trustee pursuant to the Indenture. The Lease may not be assigned by the District for any reason. However, the Leased Property may be subleased, as a whole or in part, by the District, without the necessity of obtaining the consent of the Lessor, the Trustee, the Certificate Insurer or any Owners; subject, however, to each of the following conditions:

- (a) the Lease, and the obligations of the District thereunder, will, at all times during the Lease Term, remain obligations of the District, and the District will maintain its direct relationships with the Lessor and the Trustee, notwithstanding any sublease; and
- (b) the District will furnish or cause to be furnished to the Lessor and the Trustee a copy of any sublease agreement.

Neither the Lessor nor the District is permitted under the Lease to mortgage, sell, assign, transfer or convey the Leased Property or any portion thereof during the Lease Term except in accordance with the Lease.

Events of Default and Remedies

Any of the following constitute an "Event of Default" under the Lease:

- (a) failure by the District to pay any Base Rentals and Additional Rentals during the Lease Term on the dates specified in the Lease and continuance of such failure for a period of 10 days after the same is due and payable; or
- (b) failure by the District to vacate the Leased Property by the first day of the second month of the Fiscal Year following an Event of Nonappropriation; or
- (c) failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in (a) or (b) above, for a period of 45 days after written notice, specifying such failure and requesting that it be remedied, is given to the District by the Trustee or the Certificate Insurer, unless the Trustee or the Certificate Insurer agrees in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Trustee and the Certificate Insurer will not withhold its consent to an extension of time if corrective action is instituted by the District within the applicable time period and diligently pursued until the default is corrected.

The foregoing provisions concerning Events of Default are subject to the following limitations: (i) the District will be obligated to pay the Base Rentals and Additional Rentals only during the Lease Term, except as otherwise expressly provided in the Lease; and (ii) if, by reason of Force Majeure, the District is unable in whole or in part to carry out any agreement on its part, other than the obligations on the part of the District to pay Base Rentals and Additional Rentals until termination of the Lease Term, the District will not be deemed in default during the continuance of such inability. The District has agreed, however, to remedy, as promptly as legally and reasonably possible, the cause or causes preventing the District from carrying out its agreement, except that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the District.

Whenever any Event of Default has happened and is continuing, the Trustee, acting for the Lessor may, with the consent of the Certificate Insurer or, shall at the direction of the Certificate Insurer, or, if the Certificate Insurer shall be in default in its payments under the Policy, shall at the request of the owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding and upon indemnification as to costs and expenses in accordance with the Indenture, is required to take one or any combination of the following remedial steps:

- (a) The Trustee may terminate the Lease Term and give notice to the District to vacate the Leased Property within 120 days from the date of such notice.

(b) After the occurrence of an Event of Default, and in the event that payments under the Policy shall be insufficient to pay the principal of and interest on the Certificates when due, or in the event that the Certificate Insurer shall so direct the Trustee, the Trustee shall, without further demand or notice, proceed to foreclose through the courts on and sell, or otherwise liquidate or dispose of, the Leased Property.

(c) In the event that the Trustee deems such action to be in the best interests of the Owners, the Trustee may lease the Leased Property or any portion thereof for the benefit of the Owners.

(d) The Trustee may recover from the District:

1. The maximum amount legally available for contractual payments under the Lease under the District's then current budget and appropriation measures, plus additional amounts through condemnation or inverse condemnation proceedings or other noncontractual remedies relating to the right to occupy or use the Leased Property, to the full extent permitted by law, to a maximum total of the proportionate share of Base Rentals and any duly budgeted and appropriated Additional Rentals payable to or for the account of the Trustee, otherwise payable under the Lease and allocable to any period during which the District continues to occupy the Leased Property; which proportionate share of Base Rentals and of any such Additional Rentals is hereby determined and stipulated to be just compensation for the occupancy or use of the Leased Property for any such period; and
2. Base Rentals and any duly budgeted and appropriated Additional Rentals payable to or for the account of the Trustee, which would otherwise have been payable by the District under the Lease during the remainder of the Fiscal Year in which such Event of Default occurs; provided, however, that if the Trustee does not proceed to foreclose through the courts on and sell, or otherwise liquidate or dispose of, the Leased Property reasonably promptly after such Event of Default, the Trustee shall be obligated to the District to use its best efforts to lease or sublease the Leased Property for the remainder of such Fiscal Year, as provided in the Lease, and the Net Proceeds of such leasing shall be offset against the amount recoverable from the District under this paragraph (d)(2).

(e) The Trustee may take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Leased Property under the Lease and the Indenture.

The Trustee shall also be entitled, upon any Event of Default, to any moneys in any funds or accounts created under the Indenture.

A judgment requiring a payment of money may be entered against the District by reason of an Event of Default only as to the District's liabilities described in (d) above. A judgment requiring a payment of money may be entered against the District by reason of an Event of Nonappropriation only to the extent that the District fails to vacate the Leased Property as required by the Lease, and only as to the liabilities described in paragraph (d)(1) above. The remedy described in paragraph (d)(2) above is not available for an Event of Default consisting of failure by the District to vacate the Leased Property by the dates specified in the Indenture.

The Trustee may waive an Event of Default under the Lease under certain circumstances as provided in the Lease.

Amendments, Changes and Modifications

Except as otherwise provided in the Lease or the Indenture, the Lease may not be effectively amended, changed, modified, or altered without the written consent of the Trustee and the Certificate Insurer as provided in the Indenture. See "APPENDIX C-THE INDENTURE--Supplemental Indentures and Amendments of the Lease."

THE INDENTURE

Payment of the Certificates

The principal amount of, premium, if any, and interest on the Certificates are payable solely from the Revenues received by the Trustee and from payments by AMBAC Indemnity under the 1997 Surety Bond and the 1997 Policy, as provided in the Lease and the Indenture; and the Revenues, when, as and if received by the Trustee, are to be held in trust for the payment of the principal of, premium, if any, and interest on the Certificates.

Funds and Accounts

The Indenture provides for the establishment of various funds and accounts as described in the following paragraphs. Except as otherwise provided in the Lease and the Indenture, the Trustee will hold all funds and accounts in trust for the benefit of the Owners.

The Certificate Fund

The Certificate Fund will consist of the Interest Account and the Principal Account. The Trustee is required to withdraw funds from the Certificate Fund to pay the principal of and interest on the Certificates and any Additional Certificates as the same become due and payable.

The Indenture requires to be deposited into the Interest Account (a) all accrued interest received upon the issuance of the Certificates; (b) capitalized interest to pay interest on the Certificates and any Additional Certificates as set forth in section 3.02 of the Indenture; (c) that portion of Base Rentals designated and paid as interest; (d) any moneys transferred from the Reserve Fund or Extraordinary Revenue Fund in accordance with the Indenture; and (e) all other moneys received by the Trustee under the Indenture accompanied by directions from the District to deposit such moneys therein. The Indenture requires to be deposited into the Principal Account (a) that portion of Base Rentals designated and paid as principal; (b) any moneys transferred from the Reserve Fund or Extraordinary Revenue Fund in accordance with the Indenture; and (c) all other moneys received by the Trustee under the Indenture accompanied by directions from the District to deposit such moneys therein.

The Reserve Fund

The Indenture requires to be deposited into the Reserve Fund, from the proceeds of the sale of the Certificates and any Additional Certificates or from other legally available moneys, an amount sufficient to establish the Reserve Fund Requirement.

The Indenture requires moneys held in the Reserve Fund to be applied, excluding income derived from the investment thereof, to any of the following purposes: (i) to the payment of the principal amount of the Certificates and Additional Certificates and interest thereon, as the same become due, to the extent of any deficiency in either the Interest Account or the Principal Account of the Certificate Fund for such purpose; (ii) at the option of the Trustee, to the payment of Additional Rentals in the event the District fails to make payment thereof; (iii) at the option of the Trustee, upon the occurrence of an Event of Nonappropriation or an Event of Default, to the payment of any cost or expense necessary to preserve or protect the Leased Property or the interest of the Trustee or the Owners therein, or necessary to make any repairs or modification to the Leased Property in preparation for sale or other disposition thereof, as the Trustee may deem to be in the best interests of the Owners; provided, however, that, if the Certificate Insurer shall be in compliance with the terms and conditions of the Policy, then no disbursement shall be made from the Reserve Fund for any of the purposes set forth in this subsection (iii) without the written consent of the Certificate Insurer; (iv) except to the extent applied pursuant to (iii) above, upon the termination of the Lease Term by reason of the occurrence of an Event of Nonappropriation or an Event of Default, proportionately to the redemption of the Certificates then outstanding and the payment of interest thereon; (v) in the event that the District exercises its option to purchase the Leased Property and to terminate the Lease Term upon payment of the Purchase Option Price, as a reduction of such Purchase Option Price, or at the option of the District, to be paid directly to the District; (vi) at the option of the District, in reduction of the payments of Base Rentals payable by the District under the Lease on and after June 16, 2019.

The Trustee will deposit the 1997 Surety Bond in the Reserve Fund and will draw upon the 1997 Surety Bond in accordance with the Indenture.

To the extent that Reserve Fund moneys are applied pursuant to paragraph (i) or (ii) above, the District has agreed to pay to the Trustee, for deposit in the Reserve Fund, as Additional Rentals such amounts as are required to restore the amount on deposit in the Reserve Fund to the Reserve Fund Requirement by the first day of the fourth month of the Fiscal Year following such withdrawal of moneys from the Reserve Fund. The District has further agreed that failure to budget and appropriate moneys for such payment by the last day of the Fiscal Year during which such withdrawal occurs shall constitute an Event of Nonappropriation. Investment earnings on the Reserve Fund are to be transferred to the Certificate Fund to the extent not needed to maintain the Reserve Fund Requirement.

Cash or Permitted Investments in the Reserve Fund shall be used for the purposes specified above before any Qualified Surety Bond therein is so used. The District may at any time substitute (i) cash or Permitted Investments for a Qualified Surety Bond, (ii) a Qualified Surety Bond for cash or Permitted Investments, or (iii) a Qualified Surety Bond for another Qualified Surety Bond so long as the amount on deposit in the Reserve Fund after any such substitution is at least equal to the Reserve Fund Requirement. For the purposes of determining the amount on deposit in the Reserve Fund, a Qualified Surety Bond shall be valued at the amount available to be drawn thereunder.

The Extraordinary Revenue Fund

The Indenture requires all Extraordinary Revenues to be deposited into the Extraordinary Revenue Fund and be applied to the payment or redemption of the Certificates and any Additional Certificates as provided in the Indenture. So long as the Certificate Insurer is not in default with respect to its payment obligation under the Policy, unless the Certificate Insurer consents to redemption of the Certificates and any Additional Certificates, moneys on deposit in the Extraordinary Revenue Fund and allocated to payments on the Certificates and any Additional Certificates shall be transferred to the Certificate Fund as necessary to pay principal of or interest on the Certificates and any Additional Certificates on the normal maturity and interest payment dates, to the extent of moneys available therefor. In the event the Certificates and any Additional Certificates are not subject to redemption or are not called for redemption, the Extraordinary Revenue Fund may be maintained as an escrow for the payment of the Certificates and any Additional Certificates to effect a discharge of the Indenture.

Nonpresentment of Certificates

In the event any Certificate shall not be presented for payment when due, if funds sufficient to pay such Certificate shall have been made available to the Trustee for the benefit of the Owner thereof, it shall be the duty of the Trustee to hold such funds without liability for interest thereon for the benefit of the Owner of such Certificate, who shall be restricted exclusively to such funds for any claim of whatever nature on his or her part under the Lease or the Indenture or on or with respect to such Certificate. If any Certificate shall not be presented for payment within the period of three years following the date when such Certificate becomes due, whether by maturity or

otherwise, the Trustee shall return to the District the funds theretofore held by it for payment of such Certificate and such Certificate shall, subject to the defense of any applicable statute of limitation, thereafter be an unsecured obligation of the District.

Additional Certificates

So long as the Lease Term shall remain in effect and no Event of Nonappropriation or Event of Default shall have occurred, one or more issues of Additional Certificates may be issued. Additional Certificates may be issued to provide funds to pay any one or more of the following: (i) the costs of making at any time or from time to time such substitutions, additions, modifications and improvements in, on or to the Leased Property as the District may deem necessary or desirable; and (ii) the costs of refunding all or any portion of the Certificates and any Additional Certificates then outstanding; and in either case, the costs of the issuance and sale of the Additional Certificates, deposit to the Reserve Fund, and capitalized interest for such period, and other costs reasonably related to the financing as shall be agreed upon by the District and the Trustee.

Additional Certificates may be issued without the consent of or notice to the Certificate Owners. The prior approval of the Certificate Insurer shall be required for the issuance of Additional Certificates for the purposes specified in clause (i) of the immediately preceding paragraph.

Additional Certificates may be issued only upon there being furnished to the Trustee:

- (1) Originally executed counterparts of a supplemental Indenture and an amendment to the Lease adopted in accordance with the requirements of Article IX of the Indenture, including any applicable requirements regarding approval of the Certificate Insurer, expressly providing that, for all the purposes hereof, the Leased Property shall include any property, buildings or equipment being financed by the Additional Certificates and that the Certificates shall mean and include the Additional Certificates being issued as well as any Certificates and Additional Certificates theretofore issued, except that the date or dates of the Additional Certificates, the rate or rates of interest on the Additional Certificates, and provisions for the redemption thereof, if any, all shall be as provided in any supplemental indenture and amendment to the Lease rather than as provided in the Indenture; and further providing for an adjustment in the Base Rentals to be paid to the Trustee under Exhibit B to the Lease to reflect the issuance of the Additional Certificates.
- (2) A written opinion of nationally recognized municipal bond counsel mutually acceptable to the District and the Trustee to the effect that the issuance of the Additional Certificates and the execution thereof have been duly authorized, that all conditions precedent to the delivery thereof have been fulfilled, and that the issuance, sale and delivery of the Additional Certificates will not constitute a default under the Lease or the Indenture nor cause any violation of the covenants or representations therein.

(3) In the event that the proceeds of such Additional Certificates are to be expended with respect to real estate, evidence that the amount of the title insurance required by the Lease has been increased (or a commitment reflecting such increase), if necessary, to the lesser of the principal amount of the Additional Certificates or the amount required by any Certificate Insurer which has issued a policy insuring the payment of the Additional Certificates (but in no case exceeding the maximum insurable value of the Leased Property).

(4) A Qualified Surety Bond (approved by AMBAC Indemnity) or proceeds of such Additional Certificates for deposit into the Reserve Fund in an amount sufficient to raise the amount on deposit in the Reserve Fund to the then applicable Reserve Fund Requirement (provided that if a Qualified Surety Bond is not provided and such amount of proceeds required exceeds the amount that can be capitalized in an issue the interest on which is excludable from gross income for Federal income tax purposes under the Code, this requirement shall be met by depositing in the Reserve Fund on delivery of the Additional Certificates the maximum amount that can be so capitalized under the Code, the remainder of the Reserve Fund Requirement to be accumulated from payments made by the District as Additional Rentals over a period not to exceed 24 months).

(5) A written order to the Trustee by the District to deliver the Additional Certificates to the purchaser or purchasers therein identified upon payment to the Trustee of a specified sum plus accrued interest.

Each of the Additional Certificates issued shall evidence the assignment of a proportionate interest in rights to receive Revenues under the Lease, as amended, proportionately and ratably secured with the Certificates originally issued and all other issues of Additional Certificates, if any, without preference, priority or distinction of any Certificates or Additional Certificates over any other.

Amounts Remaining in the Funds

After payment in full of the Certificates and any Additional Certificates, any premium thereon, interest thereon, all amounts owing to the Surety Provider, all amounts owing to the Certificate Insurer, the fees, charges and expenses of the Trustee, including reasonable attorney's fees, and the Lessor and all other amounts required to be paid under the Lease or the Indenture, any amounts remaining in the Certificate Fund, the Extraordinary Revenue Fund, the Reserve Fund, or otherwise held by the Trustee pursuant to the Indenture, are to be paid to the District upon the expiration or sooner termination of the Lease Term as a return of an overpayment of Base Rentals.

Investment of Moneys

All moneys held as part of any fund or account created under the Indenture are to be deposited or invested and reinvested by the Trustee, at the direction of the District, in Permitted Investments as described in the Indenture to the extent the same are permitted by the laws of the

State, as amended from time to time. However, the Trustee is not permitted to make any deposits or investments of any fund or account created under the Indenture which will interfere with or prevent withdrawals for payment of the Certificates and any Additional Certificates or interest thereon. The Trustee is required to sell and reduce to cash a sufficient amount of such deposits or investments whenever the cash balance in any fund or account is insufficient to satisfy the purposes of the fund or account. Any and all such deposits or investments shall be held by or under the control of the Trustee. The Trustee may make any and all such deposits or investments through its own bond department or the bond department of any bank trust company under common control with the Trustee. Except as otherwise provided in the Indenture, deposits or investments must at all times be a part of the fund or account from which the moneys used to acquire such deposits or investments have come, and all income and profits on such deposits or investments will be credited to, and losses thereon are to be charged against, such fund or account.

Discharge of the Indenture

Upon due payment (fully or partially as permitted by the Indenture) of the principal, any premium, and interest payable upon the Certificates and any Additional Certificates, or provision having been made therefor, together with all other sums payable, the Indenture is discharged. Due payment will be deemed to have been made upon any outstanding Certificate or Additional Certificate if (a) in case the Certificate or Additional Certificate is to be redeemed on any date prior to its maturity, the District has given irrevocable instructions to the Trustee to give notice of redemption on said date, (b) there has been deposited in trust either moneys in amounts which will be sufficient, or Federal Securities (as defined in the Indenture) which do not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, will be sufficient to pay when due the principal of, any premium, and interest due or to become due on the Certificate or Additional Certificate on and prior to the redemption date or maturity date thereof, as the case may be. There shall be no defeasance of the Indenture unless the Trustee receives an opinion of nationally recognized bond counsel to the effect that such defeasance does not constitute a deemed reissuance under the Internal Revenue Code of 1986, as amended.

In the event that the principal and/or interest with respect to the Certificates or Additional Certificates is paid by the Certificate Insurer pursuant to the Policy, the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the District and the Trustee to the Owners shall continue to exist, such Certificates or Additional Certificates shall be deemed to be Outstanding and the Certificate Insurer shall be fully subrogated to the rights of such Owners.

Events of Default and Remedies Under the Indenture

Any of the following will be an "event of default" under the Indenture:

(a) Default in the payment of the principal or premium, if any, on any Certificate or any Additional Certificate when the same shall become due and payable, whether at the stated maturity thereof or upon proceedings for redemption.

(b) Default in the payment of any installment of interest on any Certificate or any Additional Certificate when the same shall become due and payable.

(c) The occurrence of an Event of Nonappropriation or an Event of Default, as provided in the Lease.

Upon the occurrence of an event of default, and if such event of default consists of the occurrence of an Event of Nonappropriation under Section 6.6 of the Lease, after any applicable cure period pursuant to Section 6.6 of the Lease, the Trustee may, with the consent of the Certificate Insurer or, shall at the direction of the Certificate Insurer, or, if the Certificate Insurer shall be in default in its payments under the Policy, shall at the request of the Owners of at least a majority in aggregate principal amount of the Certificates and any Additional Certificates then outstanding and upon indemnification as to cost and expenses as provided in the Indenture shall, without any further demand or notice, take one or any combination of substantially the same remedial steps summarized in "APPENDIX C-THE LEASE--Events of Default and Remedies."

The recovery of money judgments against the District is limited as summarized in "APPENDIX C-THE LEASE -- Events of Default and Remedies."

The rights and remedies of the Owners to direct the Trustee or to exercise remedies themselves are limited as provided in the Indenture, including (i) allowing the Certificate Insurer to direct or exercise remedies unless it is in default under the Policy and (ii) a requirement for the providing of indemnification satisfactory to the Trustee. The Trustee may waive an event of default under the Indenture with the consent of the Certificate Insurer under certain circumstances as provided in the Indenture.

Obligations and Liabilities of the Trustee

The Indenture contains provisions that set forth the express terms and conditions regarding the duties and liabilities of the Trustee.

During the Lease Term, the Trustee is entitled to receive payment or reimbursement of its reasonable fees and expenses.

The Indenture provides that the Trustee may resign and become discharged from its duties under the Indenture, by notice in writing given to the District, the Certificate Insurer and the Lessor not less than 60 days before the resignation is to take effect. The resignation will take effect only upon the appointment of a successor qualified to act under the Indenture. The Indenture provides for the removal of the Trustee from its duties under the Indenture by a written instrument,

executed by the owners of a majority in aggregate principal amount of the Certificates and any Additional Certificates then outstanding. Any successor Trustee must be a bank or trust company in good standing having a capital, undivided profits and surplus of at least \$75,000,000, and approved by the Certificate Insurer.

Supplemental Indentures and Amendments of the Lease

The Trustee and the Lessor may, with the written consent of the District and the Certificate Insurer, but without the consent of, or notice to, the Owners, enter into supplemental indentures or agreements for any one or more or all of the following purposes:

- (a) To add to the covenants and agreements of the Lessor contained in the Indenture other covenants and agreements to be thereafter observed by the Lessor;
- (b) To cure any ambiguity, or to cure, correct or supplement any defect or omission or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not adversely affect the interests of the Owners;
- (c) To subject to the Indenture additional revenues, properties or collateral (including release and substitution of the Leased Property or portions thereof pursuant to the Lease);
- (d) To set forth the terms and conditions and other matters in connection with the issuance of Additional Certificates; or
- (e) To effect, in connection with the preservation of the exclusion from gross income and alternative minimum taxable income for federal income tax purposes of the interest on the Additional Certificates, any other changes in the Indenture which, in any such case, in the opinion of an attorney or firm of attorneys whose experience in matters relating to the issuance of obligations of states and their political subdivisions is nationally recognized, do not materially and prejudicially affect the rights of any of the Owners.

Except for the supplemental indentures described in the preceding paragraph, the Indenture requires that the written consent of the District, the Certificate Insurer and (except as provided under "APPENDIX C-THE INDENTURE--Certificate Insurer's Rights") the owners of not less than two-thirds in aggregate principal amount of the Certificates and Additional Certificates then Outstanding be obtained for any supplemental indenture; except that, without the consent of the owners of all of the Certificates and Additional Certificates then Outstanding, the following will not be permitted:

- (a) A change in the terms of redemption or maturity of the principal amount of or the interest on any Outstanding Certificate or Additional Certificate, or a reduction in the

principal amount of or premium payable upon any redemption of any Outstanding Certificate or Additional Certificate or the rate of interest thereon, without the consent of the owner of such Certificate or Additional Certificate;

(b) The deprivation of the owner of any Certificate or Additional Certificate then Outstanding of the lien created by the Indenture (other than as originally permitted by the Indenture);

(c) A privilege or priority of any Certificate or Additional Certificate or Certificates or Additional Certificates over any other Certificate or Additional Certificate or Certificates or Additional Certificates; or

(d) A reduction in the aggregate principal amount of the Certificates or Additional Certificates required for consent to such supplemental indenture.

The Lessor and the District may, with the written consent of the Trustee and the Certificate Insurer, but without the consent of or notice to the Owners, consent to any amendment, change or modification of the Lease as may be required: (a) by the provisions of the Lease or the Indenture; (b) for the purpose of curing any ambiguity or formal defect or omission in the Lease or for any other purpose if such provisions are necessary or desirable and do not adversely affect the interests of the Owners; (c) in order to more precisely identify the Leased Property or to add additional or substituted improvements or properties acquired in accordance with the Lease and the Indenture; (d) in connection with the issuance of Additional Certificates for certain purposes as set forth in the Indenture or (e) to effect, in connection with the preservation of the exclusion from gross income for federal income tax purposes of the interest on Additional Certificates, any other changes in the Lease which, in the opinion of nationally recognized bond counsel, do not materially and prejudicially affect the rights of the Owners. Neither the Lessor nor the Trustee may consent to any supplemental leases for any other purposes without the written consent of the Certificate Insurer and (except as provided under "APPENDIX C-THE INDENTURE--Certificate Insurer's Rights") the written consent of the owners of not less than two-thirds in aggregate principal amount of the Certificates then Outstanding.

Certificate Insurer's Rights

Any provisions of the Indenture expressly recognizing or granting rights in or to AMBAC Indemnity may not be amended in any manner which affects the rights of AMBAC Indemnity thereunder without the prior written consent of AMBAC Indemnity.

(1) Absent a default by AMBAC Indemnity under the 1997 Policy, AMBAC Indemnity's consent shall be required in lieu of the consent of the Certificate Owners, when required, for the following purposes: (i) except as provided in the following sentence, execution and delivery of any supplemental indenture; (ii) removal of the Trustee and selection and appointment of any successor trustee, and (iii) initiation or approval of any action not described in (i) or (ii) above which

otherwise requires the consent of the Certificate Owners. Notwithstanding the foregoing, the Certificate Insurer's consent shall be required in addition to, but not in lieu of, the consent of the Certificate Owners for the execution and delivery of any supplemental indentures for which the consent of 100% of the Certificate Owners is required pursuant to the Indenture.

(2) Any reorganization or liquidation plan with respect to the District must be acceptable to AMBAC Indemnity. In the event of any reorganization or liquidation, AMBAC Indemnity shall have the right to vote on behalf of all Certificate Owners absent a default by AMBAC Indemnity under the 1997 Policy.

(3) Anything in the Indenture to the contrary notwithstanding, absent a default by AMBAC Indemnity under the 1997 Policy, upon the occurrence and continuance of an event of default thereunder, AMBAC Indemnity shall be entitled to control and direct the enforcement of all rights and remedies granted to the Certificate Owners or the Trustee for the benefit of the Certificate Owners under the Indenture.

The Trustee may be removed at any time, at the request of AMBAC Indemnity, for any breach of the trust set forth in the Indenture. AMBAC Indemnity shall receive prior written notice from the Trustee of any Trustee resignation. Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to AMBAC Indemnity, shall be appointed. Notwithstanding any other provision of the Indenture, in determining whether the rights of the Certificate Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Certificate Owners as if there were no 1997 Policy.

Calculating Percentages

In calculating the aggregate principal amount of Certificates Outstanding hereunder for any purpose of the Indenture or the Lease, Capital Appreciation Certificates shall be deemed to be Outstanding in an aggregate principal amount equal to the aggregate Appreciated Values thereof at the time of determination.

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APPENDIX D
DESCRIPTION OF THE LEASED PROPERTY

Pursuant to the Indenture, the Lessor has granted a mortgage on the following property to the Trustee for the benefit of the Owners of the Certificates:

| <u>Description</u> | <u>Address</u> | <u>Year of Construction</u> | <u>Approximate Building Size</u> | <u>Approximate Land Size</u> |
|--|----------------------------|-----------------------------|----------------------------------|------------------------------|
| South High School ¹ | 1700 East Louisiana Avenue | 1926/89 ² | 335,820 | 27.55 |
| George Washington High School | 655 South Monaco | 1960 | 328,460 | 31.41 |
| East High School | 1545 Detroit Street | 1925/81 ² | 267,110 | 20.28 |
| Abraham Lincoln High School | 2285 South Federal Blvd. | 1960/93 ² | 307,145 | 19.00 |
| Thomas Jefferson High School | 3950 S. Holly Street | 1960/92 ² | 262,305 | 42.69 |
| West High School ¹ | 951 Elati Street | 1925/93 ² | 238,315 | 13.46 |
| John F. Kennedy High School | 2855 South Lamar Street | 1966 | 281,510 | 23.93 |
| Manual High School | 1700 E. 28th Avenue | 1953/93 ² | 259,529 | 19.27 |
| Cole Middle School | 3240 Humboldt Street | 1925/76 ² | 167,300 | 8.42 |
| Horace Mann Middle School ¹ | 4130 Navajo Street | 1931 | 153,470 | 6.26 |
| Lake Middle School ¹ | 1820 Lowell Blvd. | 1926 | 143,000 | 10.76 |
| Smiley Middle School | 2540 Holly Street | 1928/82 ² | 135,320 | 16.52 |
| Hamilton Middle School | 8600 East Dartmouth | 1969 | 184,340 | 13.29 |
| Kunsmiller Middle School | 2250 South Quitman Way | 1957/63 ² | 166,930 | 13.12 |
| Skinner Middle School | 3435 W. 49th Avenue | 1922/92 ² | 137,388 | 7.02 |
| Gove Middle School | 4050 East 14th Avenue | 1975 | 111,260 | 10.38 |

¹Designated for historical preservation

²Year of major renovation

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APPENDIX E
SPECIMEN OF THE FINANCIAL GUARANTY INSURANCE POLICY

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APPENDIX E

AMBAC Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
 c/o CT Corporation Systems
 44 East Mifflin St., Madison, Wisconsin 53703
 Administrative Office:
 One State Street Plaza, New York, NY 10004
 Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

In consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

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

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid and upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncancelled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such holder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the instrument of assignment was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

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

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

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

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


President




Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form # SGA-100418.02

Authorized Representative


Cynthia Chasen
Authorized Officer

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APPENDIX F

TABLE OF APPRECIATED VALUES

| Price | 31.124% | 28.842% | 26.806% | 24.817% | 23.052% |
|------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Maturity | 12/15/13 | 12/15/14 | 12/15/15 | 12/15/16 | 12/15/17 |
| Yield | 7.240% | 7.270% | 7.280% | 7.310% | 7.320% |
| Real Yield | 7.24017036% | 7.27007564% | 7.28018736% | 7.31002874% | 7.32008571% |
| 7/17/97 | 1,556.20 | 1,442.10 | 1,340.30 | 1,240.85 | 1,152.60 |
| 12/15/97 | 1,602.37 | 1,485.06 | 1,380.29 | 1,278.02 | 1,187.17 |
| 6/15/98 | 1,660.38 | 1,539.05 | 1,430.53 | 1,324.73 | 1,230.63 |
| 12/15/98 | 1,720.49 | 1,594.99 | 1,482.60 | 1,373.15 | 1,275.67 |
| 6/15/99 | 1,782.77 | 1,652.97 | 1,536.57 | 1,423.34 | 1,322.36 |
| 12/15/99 | 1,847.31 | 1,713.06 | 1,592.50 | 1,475.36 | 1,370.76 |
| 6/15/00 | 1,914.18 | 1,775.33 | 1,650.47 | 1,529.29 | 1,420.93 |
| 12/15/00 | 1,983.48 | 1,839.86 | 1,710.55 | 1,585.18 | 1,472.93 |
| 6/15/01 | 2,055.28 | 1,906.74 | 1,772.82 | 1,643.12 | 1,526.84 |
| 12/15/01 | 2,129.68 | 1,976.05 | 1,837.35 | 1,703.18 | 1,582.73 |
| 6/15/02 | 2,206.78 | 2,047.88 | 1,904.23 | 1,765.43 | 1,640.65 |
| 12/15/02 | 2,286.67 | 2,122.32 | 1,973.55 | 1,829.96 | 1,700.70 |
| 6/15/03 | 2,369.45 | 2,199.47 | 2,045.39 | 1,896.84 | 1,762.95 |
| 12/15/03 | 2,455.22 | 2,279.42 | 2,119.84 | 1,966.17 | 1,827.47 |
| 6/15/04 | 2,544.11 | 2,362.28 | 2,197.00 | 2,038.04 | 1,894.36 |
| 12/15/04 | 2,636.20 | 2,448.15 | 2,276.98 | 2,112.53 | 1,963.69 |
| 6/15/05 | 2,731.64 | 2,537.14 | 2,359.86 | 2,189.74 | 2,035.57 |
| 12/15/05 | 2,830.52 | 2,629.37 | 2,445.76 | 2,269.78 | 2,110.07 |
| 6/15/06 | 2,932.99 | 2,724.94 | 2,534.79 | 2,352.74 | 2,187.30 |
| 12/15/06 | 3,039.17 | 2,824.00 | 2,627.06 | 2,438.73 | 2,267.36 |
| 6/15/07 | 3,149.19 | 2,926.65 | 2,722.69 | 2,527.87 | 2,350.34 |
| 12/15/07 | 3,263.19 | 3,033.04 | 2,821.79 | 2,620.26 | 2,436.36 |
| 6/15/08 | 3,381.32 | 3,143.29 | 2,924.51 | 2,716.03 | 2,525.54 |
| 12/15/08 | 3,503.73 | 3,257.55 | 3,030.96 | 2,815.30 | 2,617.97 |
| 6/15/09 | 3,630.57 | 3,375.96 | 3,141.29 | 2,918.20 | 2,713.79 |
| 12/15/09 | 3,762.00 | 3,498.68 | 3,255.64 | 3,024.86 | 2,813.12 |
| 6/15/10 | 3,898.18 | 3,625.86 | 3,374.15 | 3,135.42 | 2,916.08 |
| 12/15/10 | 4,039.30 | 3,757.66 | 3,496.97 | 3,250.02 | 3,022.81 |
| 6/15/11 | 4,185.53 | 3,894.25 | 3,624.26 | 3,368.81 | 3,133.44 |
| 12/15/11 | 4,337.05 | 4,035.81 | 3,756.19 | 3,491.94 | 3,248.13 |
| 6/15/12 | 4,494.05 | 4,182.51 | 3,892.92 | 3,619.57 | 3,367.01 |
| 12/15/12 | 4,656.74 | 4,334.55 | 4,034.63 | 3,751.87 | 3,490.25 |
| 6/15/13 | 4,825.32 | 4,492.11 | 4,181.49 | 3,889.00 | 3,617.99 |
| 12/15/13 | 5,000.00 | 4,655.40 | 4,333.70 | 4,031.14 | 3,750.41 |
| 6/15/14 | - | 4,824.62 | 4,491.45 | 4,178.48 | 3,887.68 |
| 12/15/14 | - | 5,000.00 | 4,654.94 | 4,331.20 | 4,029.97 |
| 6/15/15 | - | - | 4,824.39 | 4,489.51 | 4,177.47 |
| 12/15/15 | - | - | 5,000.00 | 4,653.60 | 4,330.36 |
| 6/15/16 | - | - | - | 4,823.69 | 4,488.86 |
| 12/15/16 | - | - | - | 5,000.00 | 4,653.15 |
| 6/15/17 | - | - | - | - | 4,823.46 |
| 12/15/17 | - | - | - | - | 5,000.00 |

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