

In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, under existing law, the Bonds are "qualified school construction bonds" within the meaning of Section 54F of the Code, and if a taxpayer holds a Bond on one or more "credit allowance dates" (as defined in Section 54A(e)(1) of the Code) occurring during any taxable year, there will be allowed as a credit against the federal income tax imposed on such taxpayer for the taxable year an amount equal to the sum of the credits determined under Section 54A of the Code with respect to such dates. If there is continuing compliance with the requirements of the Code, Bond Counsel is of the opinion that the Bonds will continue to be qualified school construction bonds. Interest and tax credits on the Bonds are not exempt from federal income taxation. Interest on the Bonds is not exempt from State of Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.



**BOARD OF EDUCATION OF THE
CITY OF CHICAGO**
\$254,240,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues),
Series 2009G
(Qualified School Construction Bonds)



Dated: Date of Issuance Tax Credit Rate: 5.75% Price: 100% Interest Rate: 1.75% Maturity Date: December 15, 2025

The Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009G (Qualified School Construction Bonds) (the "Bonds") will be issued by the Board of Education of the City of Chicago (the "Board") to (i) provide funds for the continued implementation of the Board's Capital Improvement Program (as described herein), and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount). See "BOARD OF EDUCATION OF THE CITY OF CHICAGO—Capital Improvement Program."

The Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds will be payable from Pledged State Aid Revenues and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from all Funds, Accounts and Sub-Accounts pledged as security for the Bonds pursuant to the Trust Indenture dated as of December 1, 2009, between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee, (the "Trustee"). See "SECURITY FOR THE BONDS."

The Bonds are being issued as "qualified school construction bonds" as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds will be issued bearing interest at a rate of 1.75% per annum (the "Supplemental Coupon"). Such interest shall be payable on each March 15, June 15, September 15 and December 15, commencing on March 15, 2010. The Bonds will bear additional interest in the event they are converted to Interest Bearing Bonds as more fully described herein. Principal of the Bonds is payable on the maturity date thereof set forth above.

The Bonds include a component relating to principal payment (the "Principal Component") and a component relating to the tax credits (the "Tax Credit Component"), which each registered owner (each an "Owner") of the Bonds will be allowed under the Code, subject to the limitations more fully described herein, on each Tax Credit Allowance Date against federal income tax liability. See "THE BONDS — The Tax Credit Program" and "TAX MATTERS" herein. At the option of an Owner of a Bond, the ownership of the Principal Component may be separated from the ownership of the Tax Credit Component. Upon any such separation, the Principal Component and the Tax Credit Component will be evidenced by principal strip certificates (the "Principal Strip Certificates") and tax credit certificates (the "Tax Credit Certificates") and separately registered by the Trustee. The Owner of the Principal Strip Certificates will be entitled to the interest payments of the Supplemental Coupon related thereto. In addition, the Owner of a Principal Strip Certificate and the requisite number of Tax Credit Certificates may recombine such Principal Strip Certificate and Tax Credit Certificates into unstripped Bonds. See "THE BONDS — Separation and Recombining of Principal Component and Tax Credit Component" herein.

The Bonds will be initially issued in book-entry form only, in denominations of \$40,000 or integral multiples thereof, and will be initially issued and registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds and, if separated, the Principal Strip Certificates and the Tax Credit Certificates. Purchasers will not receive physical delivery of the Bonds purchased by them or the Principal Strip Certificates and the Tax Credit Certificates separated therefrom. Payments of principal of and interest on the Bonds will be paid by the Trustee to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See "THE BONDS—Book-Entry Only System" herein.

The Bonds may, in certain circumstances, be converted to bonds that, in lieu of providing the Owner thereof credits against federal income tax liability, bear interest (in addition to the Supplemental Coupon) at the Tax Credit Rate set forth above, as more fully described herein. See "THE BONDS – Conversion of Bonds into Interest Bearing Bonds" herein.

The Bonds are not subject to optional or mandatory sinking fund redemption. The Bonds are subject to extraordinary mandatory redemption prior to maturity, as more fully described herein. See "THE BONDS – Redemption of the Bonds" herein.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel Quarles & Brady LLP, Chicago, Illinois, and for the Underwriters by their counsel, Burke Burns & Pinelli, Ltd., Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about December 17, 2009.

**Goldman, Sachs & Co.
M. R. Beal & Company**

**J.P. Morgan
Ramirez & Co., Inc.**

BOARD OF EDUCATION OF THE CITY OF CHICAGO
\$254,240,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2009G
(Qualified School Construction Bonds)

MATURITY DATE, PRINCIPAL AMOUNT, TAX CREDIT RATE, PRICE OR YIELD AND CUSIP* NUMBERS

As Initially Issued:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Tax Credit Rate</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP*</u> <u>(Base No. 167505)</u>
December 15, 2025	\$254,240,000	5.75%	1.75%	100%	KJ4

As and after principal is stripped from the associated Tax Credits:

		<u>Maturity Date</u>		<u>Principal Strip Amount</u>		<u>CUSIP*</u> <u>(Base No. 167505)</u>					
		December 15, 2025		\$254,240,000		KK1					
<u>Tax Credit Allowance Date</u>	<u>CUSIP* number (if stripped from Related Bond) Base: 167505</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP* number (if stripped from Related Bond) Base: 167505</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP* number (if stripped from Related Bond) Base: 167505</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP* number (if stripped from Related Bond) Base: 167505</u>	<u>Tax Credit Amount</u>
03/15/2010	KL9	\$3,572,072	06/15/2010	KM7	\$3,654,700	09/15/2010	KN5	\$3,654,700	12/15/2010	KP0	\$3,654,700
03/15/2011	KQ8	3,654,700	06/15/2011	KR6	3,654,700	09/15/2011	KS4	3,654,700	12/15/2011	KT2	3,654,700
03/15/2012	KU9	3,654,700	06/15/2012	KV7	3,654,700	09/15/2012	KW5	3,654,700	12/15/2012	KX3	3,654,700
03/15/2013	KY1	3,654,700	06/15/2013	KZ8	3,654,700	09/15/2013	LA2	3,654,700	12/15/2013	LB0	3,654,700
03/15/2014	LC8	3,654,700	06/15/2014	LD6	3,654,700	09/15/2014	LE4	3,654,700	12/15/2014	LF1	3,654,700
03/15/2015	LG9	3,654,700	06/15/2015	LH7	3,654,700	09/15/2015	LJ3	3,654,700	12/15/2015	LK0	3,654,700
03/15/2016	LL8	3,654,700	06/15/2016	LM6	3,654,700	09/15/2016	LN4	3,654,700	12/15/2016	LP9	3,654,700
03/15/2017	LQ7	3,654,700	06/15/2017	LR5	3,654,700	09/15/2017	LS3	3,654,700	12/15/2017	LT1	3,654,700
03/15/2018	LU8	3,654,700	06/15/2018	LV6	3,654,700	09/15/2018	LW4	3,654,700	12/15/2018	LX2	3,654,700
03/15/2019	LY0	3,654,700	06/15/2019	LZ7	3,654,700	09/15/2019	MA1	3,654,700	12/15/2019	MB9	3,654,700
03/15/2020	MC7	3,654,700	06/15/2020	MD5	3,654,700	09/15/2020	ME3	3,654,700	12/15/2020	MF0	3,654,700
03/15/2021	MG8	3,654,700	06/15/2021	MH6	3,654,700	09/15/2021	MJ2	3,654,700	12/15/2021	MK9	3,654,700
03/15/2022	ML7	3,654,700	06/15/2022	MM5	3,654,700	09/15/2022	MN3	3,654,700	12/15/2022	MP8	3,654,700
03/15/2023	MQ6	3,654,700	06/15/2023	MR4	3,654,700	09/15/2023	MS2	3,654,700	12/15/2023	MT0	3,654,700
03/15/2024	MU7	3,654,700	06/15/2024	MV5	3,654,700	09/15/2024	MW3	3,654,700	12/15/2024	MX1	3,654,700
03/15/2025	MY9	3,654,700	06/15/2025	MZ6	3,654,700	09/15/2025	NA0	3,654,700	12/15/2025	NB8	3,654,700

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REGARDING USE OF THIS OFFICIAL STATEMENT

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

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

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Indenture for the Bonds. Copies of the Indenture are available for inspection at the offices of the Board and the Trustee. The information contained herein is provided as of the date hereof and is subject to change.

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

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

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

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General Counsel

Katten Muchin Rosenman LLP
Bond Counsel

A.C. Advisory, Inc.
Financial Advisor

* The office of President is currently vacant. See “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Governing Body” herein.

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

\$254,240,000

**Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2009G
(Qualified School Construction Bonds)**

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the “**Board**”) of \$254,240,000 of its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009G (Qualified School Construction Bonds) (the “**Bonds**”).

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned thereto in **APPENDIX B — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

The proceeds from the sale of the Bonds will be used to (i) provide funds for the continued implementation of the Board’s Capital Improvement Program (as described herein), and (ii) pay the costs of issuance of the Bonds (including the Underwriters’ discount). See “**BOARD OF EDUCATION OF THE CITY OF CHICAGO—Capital Improvement Program**” and “**ESTIMATED SOURCES AND USES OF FUNDS.**”

The Bonds will be issued under a Trust Indenture dated as of December 1, 2009 (the “**Indenture**”), by and between the Board and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee (the “**Trustee**”). The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit.

Authorization for the Bonds

The Local Government Debt Reform Act of the State of Illinois, as amended (the “**Debt Reform Act**”) authorizes the Board to issue alternate revenue bonds (“**Alternate Bonds**”) which are general obligation bonds, backed by the full faith and credit of the Board, and which are payable from any revenue source available to the Board (the “**Alternate Revenues**”).

Pursuant to the provisions of the School Code of the State of Illinois, as amended (the “**School Code**”) and the Debt Reform Act, the Board adopted a resolution on February 27, 2008 (the “**2008 Authorization**”) authorizing the issuance of Alternate Bonds in an aggregate principal amount not to exceed \$1,900,000,000 which could be made payable from various sources of Alternate Revenues including: (i) not more than \$225,000,000 of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, and (ii) grants and other payments to be paid to the Board by the United States of America. On August 26, 2009, the Board adopted Resolution 09-0826-RS5, as amended by Resolution 09-1123-RS2 authorizing the issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues), in an aggregate amount not to exceed \$801,585,000 (the “**Bond Resolution**” and, together with the 2008 Authorization, the “**Resolutions**”) which authorized the issuance of the Bonds.

Security for the Bonds

The Bonds will be secured by and are payable (i) from the Pledged State Aid Revenues (as defined herein), (ii) to the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board pursuant to the 2008 Authorization, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the “**Pledged Taxes**”) and (iii) from all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture, including moneys deposited annually by the Board in the Principal Sub-Account (each a mandatory “**Annual Sinking Fund Payment**”) for the purpose of paying the principal of the Bonds at maturity. See “**SECURITY FOR THE BONDS – General**” and “**– General State Aid**” for a discussion of Pledged State Aid Revenues and additional information pertaining to General State Aid. See “**SECURITY FOR THE BONDS – Debt Service Fund and Accounts,**” and “**– Pledge of Funds, Accounts and Sub-Accounts**” for a discussion of the requirement for and pledge of the Annual Sinking Fund Payments. For a discussion of other obligations of the Board payable from Pledged State Aid Revenues available for bonds issued under the 2008 Authorization, see “**2008 Authorization Bonds and Additional Bonds**” below.

2008 Authorization Bonds and Additional Bonds

Alternate Bonds issued under the 2008 Authorization are currently outstanding. See “**SECURITY FOR THE BONDS – Additional Bonds Payable From Pledged State Aid Revenues.**” The Board’s (i) \$262,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A (the “**2008A Bonds**”), (ii) \$240,975,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, (iii) \$464,655,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (iv) \$130,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, (v) \$518,210,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds “Direct Payment”), and (vi) \$29,125,000 Tax-Exempt Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F (collectively, the “**2008 Authorization Bonds**”) are the only Alternate Bonds currently outstanding under the 2008 Authorization. After issuance of the Bonds, the full amount of the \$1,900,000,000 aggregate principal amount of Alternate Bonds currently authorized under the 2008 Authorization will have been issued by the Board. All of the 2008 Authorization Bonds, with the exception of the 2008A Bonds, are Alternate Bonds payable from the State Aid Revenues available under the 2008 Authorization (collectively, the “**2008 Authorization State Aid Bonds**”).

Other Alternate Bonds

The Board has issued and currently has outstanding \$4.8 billion in Alternate Bonds payable from Alternate Revenues, including designated amounts of the Board’s State Aid Revenues that do not constitute Pledged State Aid Revenues which secure the Bonds. See “**BOARD OF EDUCATION OF THE CITY OF CHICAGO - Outstanding Debt Obligations.**” In the future, the Board may issue additional Alternate Bonds payable from additional designated amounts of the Board’s State Aid Revenues (that are not Pledged State Aid Revenues which secure the Bonds) under future authorizing resolutions. See “**SECURITY FOR THE BONDS – Other Additional Indebtedness.**”

Description of the Bonds

Designation of Bonds as Qualified School Construction Bonds. The Bonds will be issued as “qualified school construction bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “**Recovery Act**”) and as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the “**Code**”). The Bonds include a component relating to principal payment (the “**Principal**”

Component”) and a component relating to the tax credits, which the Owners of the Bonds will be allowed under the Code, subject to the limitations more fully described herein, on each Tax Credit Allowance Date as set forth on the inside cover page hereof (each a “**Tax Credit Allowance Date**”), against federal income tax liability (the “**Tax Credit Component**”). See “**THE BONDS — The Tax Credit Program**” and “**TAX MATTERS**” herein.

Supplemental Coupon. The Bonds will be issued bearing interest at a rate of 1.75% per annum (the “**Supplemental Coupon**”). Such interest shall be payable on each March 15, June 15, September 15 and December 15, commencing on March 15, 2010. The Bonds will bear additional interest in the event they are converted to Interest Bearing Bonds (defined below).

Payment of Principal. Principal of the Bonds is payable on the maturity date thereof.

Separation and Recombining of Principal Component and Tax Credit Component. At the option of an Owner of a Bond, the ownership of the Principal Component and the Tax Credit Component may be separated or “stripped” from such Bond. Upon any such separation, the Principal Component and the Tax Credit Component will be evidenced by principal strip certificates (the “**Principal Strip Certificates**”) and tax credit certificates (the “**Tax Credit Certificates**”), respectively, each of which will be separately registered by the Trustee. The Owner of the Principal Strip Certificates will be entitled to the interest payments of the Supplemental Coupon related thereto. In addition, the Owner of a Principal Strip Certificate and the requisite number of Tax Credit Certificates may recombine such Principal Strip Certificate and Tax Credit Certificates into unstripped Bonds.

Form and Registration. The Bonds will be initially issued in book-entry form only, in denominations of \$40,000 or integral multiples thereof, and will be initially issued and registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository for the Bonds and, if separated, the Principal Strip Certificates and the Tax Credit Certificates. If separated, Principal Strip Certificates will be executed and delivered in denominations of \$40,000 or integral multiples thereof and Tax Credit Certificates will be executed and delivered in denominations of an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the tax credit rate applicable to the Bonds set forth on the front inside cover page hereof (the “**Tax Credit Rate**”), or any integral multiple thereof, except that the Authorized Denomination for Tax Credit Certificates with respect to the first Tax Credit Allowance Date will be pro rated by the number of days from the date of initial issuance and delivery of the Bonds to the first Tax Credit Allowance Date.

Purchasers will not receive physical delivery of the Bonds purchased by them or the Principal Strip Certificates and the Tax Credit Certificates separated therefrom. Payments of principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See “**THE BONDS—Book-Entry Only System**” herein.

Redemption. The Bonds are not subject to optional or mandatory sinking fund redemption. The Bonds are subject to extraordinary mandatory redemption prior to maturity, as more fully described herein. See “**THE BONDS – Redemption of the Bonds**” herein.

Conversion of Bonds into Interest Bearing Bonds. The Bonds may, in certain circumstances, be converted, in whole or in part, to bonds that, in lieu of providing the Owner thereof credits against federal income tax liability, bear interest (in addition to the Supplemental Coupon) at the Tax Credit Rate (the

“**Interest Bearing Bonds**”), payable on each March 15, June 15, September 15 and December 15 (each, a “**Cash Interest Payment Date**”), commencing on the March 15, June 15, September 15 or December 15 immediately after the date the Bonds are converted to Interest Bearing Bonds (the “**Cash Interest Payments**”). Upon any such conversion, each Interest Bearing Bond so converted will bear interest from the Cash Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date immediately preceding any Cash Interest Payment Date to and including such Cash Interest Payment Date, in which event it will bear interest from such Cash Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Cash Interest Payment Date, in which event it will bear interest from the Tax Credit Conversion Date (defined herein). See “**THE BONDS — Conversion of Bonds into Interest Bearing Bonds**” herein.

The Interest Bearing Bonds, if any, will include a Principal Component and a component relating to the Cash Interest Payments (the “**Cash Interest Payment Component**”), and, at the option of an Owner of an Interest Bearing Bond, the ownership of the Principal Component and the Cash Interest Payment Component may be separated or “stripped” from such Interest Bearing Bond. Upon any such separation, the Principal Component and the Cash Interest Payment Component will be evidenced by Principal Strip Certificates and cash interest certificates (the “**Cash Interest Certificates**”), each of which will be separately registered by the Trustee. The Owner of the Principal Strip Certificates will be entitled to the interest payments of the Supplemental Coupon related thereto. In addition, the Owner of a Principal Strip Certificate and the requisite number of Cash Interest Certificates may recombine such Principal Strip Certificate and Cash Interest Certificates into unstripped Interest Bearing Bonds.

The Interest Bearing Bonds, if any, will be delivered in book-entry form only and will be registered in the name of Cede & Co., as nominee for DTC. The Interest Bearing Bonds, if any, will be delivered in denominations of \$5,000 or any integral multiple thereof; provided, however, that, if separated, Principal Strip Certificates will be executed and delivered in denominations of \$40,000 or integral multiples thereof and Cash Interest Certificates will be executed and delivered in denominations of an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate, or any integral multiple thereof.

Certain Investment Considerations

The Bonds are a new type of security which is authorized by the Recovery Act. Presently, there is no secondary market for either the Bonds or, if separated, the Principal Strip Certificates and the Tax Credit Certificates. There can be no assurance that a secondary market will develop, or if a secondary market does develop, that it will provide Owners with liquidity or continue to exist for the full term of the Bonds. The Underwriters are under no obligation to make a secondary market for the Bonds, the Principal Strip Certificates or the Tax Credit Certificates. If a secondary market develops, the Bonds, the Principal Strip Certificates and Tax Credit Certificates may be subject to greater price volatility than traditional municipal bonds. The mechanics of transfer and registration and the tax treatment of the Bonds and Tax Credit Certificates may further limit the liquidity and market value of the Bonds, the Principal Strip Certificates and Tax Credit Certificates.

The Tax Credits are not refundable Tax Credits. If an Owner of a Bond or a Tax Credit Certificate has federal gross income tax liability for a given year less than the amount of Tax Credits to which it is entitled for that year, then the Owner may be entitled to carry forward any excess Tax Credit to subsequent tax years and should consult with their own tax advisors concerning the circumstances under which such a carry-forward would be allowable. See “**TAX MATTERS**” herein.

The Tax Credits to which an Owner is entitled on a particular Tax Credit Allowance Date are not transferable after such Tax Credit Allowance Date. Prospective purchasers of Principal Strip Certificates

should consult with their own tax advisors concerning the specific circumstances applicable to such prospective purchaser under which the related Tax Credit cannot be utilized. There can be no assurance that an Owner would be able to sell a Bond or a Tax Credit Certificate prior to the related Tax Credit Allowance Date.

THE BONDS

Designation of Bonds as Qualified School Construction Bonds

The Bonds will be designated by the Board as “qualified school construction bonds” under the provisions of the Recovery Act and as defined in Section 54F of the Code. The total amount of “qualified school construction bonds” issued nationally in calendar year 2009 is limited by the Code to \$11 billion, and the United States Department of the Treasury (the “**Treasury Department**”) has allocated a portion of such limit to the Board (the “**Allocation**”) in the amount of \$254,250,000. The principal amount of the Bonds is not in excess of the Allocation.

The Tax Credit Program

Under the Code, the Owners of qualified school construction bonds are allowed a credit (the “**Tax Credit**”) against their federal income tax liability (herein referred to as the “**Tax Credit Program**”). The Bonds have been designated by the Board as “qualified school construction bonds” under the Tax Credit Program. Each Bond includes a Principal Component and a Tax Credit Component. The Code provides that under regulations prescribed by the Secretary of Treasury Department (the “**Regulations**”), the ownership of the Principal Component and the Tax Credit Component of a Bond may be separated or “stripped” from such Bond.

*As of the date of this Official Statement, no regulations have been promulgated with respect to the allowance of a credit to the owners of qualified school construction bonds or the separation of the Principal Component and Tax Credit Components thereof. While this Official Statement describes how the regulations may be expected to apply, prospective purchasers of the Bonds should be aware that regulations or other official guidance, if and when issued, may impose additional and/or inconsistent requirements to those imposed under the Indenture that may be applicable, prospectively or retroactively, to an Owner’s claim for allowance of the Tax Credits. The Board and Bond Counsel express no opinion as to, and accept no liability regarding, the utility of Tax Credits for any particular Owner or subsequent purchaser of a Principal Strip Certificate or a Tax Credit Certificate, and prospective purchasers of Principal Strip Certificates or Tax Credit Certificates should consult with their own tax advisors concerning the purchase. See “**TAX MATTERS**” herein.*

The Owner of a Tax Credit (as evidenced by either an unstripped Bond or a stripped Tax Credit Certificate) will be allowed, subject to the limitations of Section 54A of the Code and the Regulations, a credit against the Owner’s federal income tax liability, except as otherwise provided herein, on March 15, June 15, September 15 or December 15 of each year through the maturity date of such Bonds, or such earlier date on which such Bond is redeemed or converted to an Interest Bearing Bond (each a “**Tax Credit Allowance Date**”).

The amount of each Tax Credit is calculated under the Tax Credit Program and is represented by either an unstripped Bond or a stripped Tax Credit Certificate. The amount of the Tax Credit at each Tax Credit Allowance Date is the amount equal to twenty-five percent (25%) of the product of (i) the published credit rate for the date on which the Bond was sold by the Board (5.75% per annum) and (ii) the outstanding principal amount of the Bond on the relevant Tax Credit Allowance Date. The Tax Credit

allowed for the first Tax Credit Allowance Date of March 15, 2010, is the ratable portion of the Tax Credit otherwise allowed on such date based on an initial issuance date of December 17, 2009.

The Bonds, the Principal Strip Certificates and the Tax Credit Certificates may be transferred as provided below. Each stripped Tax Credit Certificate will evidence only the Tax Credits associated with one Tax Credit Allowance Date for the related Bond and, when separated, multiple Tax Credit Certificates will be authenticated and delivered that in the aggregate contain all the Tax Credits related to a Bond for each Tax Credit Allowance Date. See “— **Separation and Recombining of Principal Component and Tax Credit Component**” below.

Supplemental Coupon

The Bonds include a Supplemental Coupon bearing interest at a rate of 1.75% per annum. Such interest will be payable on each March 15, June 15, September 15 and December 15 while the Bond or related Principal Strip Certificate is Outstanding, commencing on March 15, 2010, and will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond will bear interest from the interest payment date to which interest has been paid as of the date on which it is authenticated or if it is authenticated prior to the first date on which interest is to be paid, from December 17, 2009.

The interest on each Bond or related Principal Strip Certificate, if applicable, is payable in lawful money of the United States of America to the person whose name appears on the registration books of the Board maintained by the Trustee, as Registrar (the “**Registrar**”), as the registered owner thereof as of the close of business on the first day of the calendar month of each interest payment date (the “**Record Date**”), whether or not such day is a business day. So long as the Bonds and the Principal Strip Certificates, if applicable, are held by Cede & Co., as nominee of DTC, payments of principal of and interest on the Bonds will be made by wire transfer. If the book-entry system is discontinued, interest will be paid (1) by check mailed on each interest payment date (or the next business day, if the interest payment date does not fall on a business day) to each registered owner at such registered owner’s address as it appears on such registration books or at such address as the registered owner may have filed with the Registrar, for that purpose or (2) in immediately available funds (for example, by wire transfer) to any registered owner of at least \$1,000,000 principal amount of outstanding Bonds or Principal Strip Certificates, if applicable, who has requested in writing such method of payment of interest on the Bonds or related Principal Strip Certificate, if applicable, prior to the close of business on the applicable Record Date.

The Bonds will bear additional interest in the event they are converted to Interest Bearing Bonds.

Payment of Principal

Principal of the Bonds or Principal Strip Certificates, if applicable, is payable on the maturity date thereof. The principal of the Bonds or Principal Strip Certificates, if applicable, will be payable, when due or upon redemption prior thereto, in lawful money of the United States of America to the person whose name appears on the registration books of the Board maintained by the Registrar as the registered owner thereof upon the surrender thereof at the principal corporate trust office of the Trustee.

Separation and Recombining of Principal Component and Tax Credit Component

Separation of Principal Component and Tax Credit Component. The Bonds include a Principal Component and a Tax Credit Component. At the option of an Owner of a Bond, the ownership of the Principal Component and the Tax Credit Component may be separated or “stripped” from such Bond. The Indenture provides that, at any time, by written request to the Trustee in the form attached thereto

(the “**Tax Credit Strip Request**”), the Owner of a Bond may, upon presentation of such Bond, direct the Trustee to authenticate and deliver Principal Strip Certificates in a face amount equal to the principal amount of the Bonds to be so separated, and Tax Credit Certificates representing the entitlement to the allocable Tax Credits with respect to such Bonds. The form of such Tax Credit Strip Request may be modified or amended by the Trustee with the prior written consent of the Board. Upon the receipt of a request and the presentation of the Bond to be stripped, the Trustee is required under the Indenture to: (i) authenticate and deliver to or upon the order of the Owner so requesting, Principal Strip Certificates in a face amount equal to the principal amount of the Bond so presented; (ii) authenticate and deliver to or upon the order of the Owner so requesting, Tax Credit Certificates for each remaining Tax Credit Allowance Date in a face amount equal to twenty-five percent (25%) of the product of (A) the principal amount of the Bond so presented and (B) the Tax Credit Rate; and (iii) contemporaneously with the delivery thereof, reduce, by the amount so converted the number of Bonds that have not been stripped. Upon any separation of the ownership of the Principal Component of a Bond from the entitlement of the Owner thereof to the related Tax Credits, the Owner of the Principal Strip Certificate related thereto shall be entitled to the interest payments of the Supplemental Coupon related thereto.

The Indenture provides that, notwithstanding the separation, if any, of the ownership of the Principal Component of a Bond from the entitlement of the Owner thereof to the related Tax Credits, the previously combined Bond will remain outstanding and the ownership of Principal Strip Certificates evidencing the rights to the related Principal Components and the Supplemental Coupon related thereto and the ownership of the Tax Credit Certificates evidencing the rights to the Tax Credits related thereto will constitute such outstanding Bond.

The Board shall not incur a liability to any Owner if Tax Credits are disallowed because the separation of Tax Credits from the Bonds accomplished in accordance with the Indenture failed to comply with the requirements of the Code or applicable regulations, including, without limitation, regulations prescribed by the Secretary of the Treasury Department pursuant to Section 54A(i) of the Code that are published or promulgated subsequent to such separation.

Recombining of Principal Component and Tax Credit Component. The Owner of a Principal Strip Certificate and the requisite number of Tax Credit Certificates may recombine such Principal Strip Certificate and Tax Credit Certificates into unstripped Bonds. The Indenture provides that, at any time, by written request to the Trustee in the form attached thereto (the “**Tax Credit Recombination Request**”), the Owner of a Principal Strip Certificate and sufficient Tax Credit Certificates having Tax Credit Allowance Dates corresponding to each and every Tax Credit Allowance Date that would remain with respect to a Bond, and having a face amount with respect to each such Tax Credit Allowance Date equal to the Tax Credits that would be related to a Bond with a principal amount equal to the Principal Strip Certificate to be recombined, may, upon presentation of such Principal Strip Certificate and Tax Credit Certificates, direct the Trustee to authenticate and deliver a Bond in a principal amount equal to the face amount of the Principal Strip Certificate to be so converted. The form of such Tax Credit Recombination Request may be modified or amended by the Trustee with the prior written consent of the Board. Upon the receipt of a Tax Credit Recombination Request and the presentation of the Principal Strip Certificate and Tax Credit Certificates to be recombined, the Trustee is required under the Indenture to authenticate and deliver an unstripped Bond in a principal amount equal to the face amount of the Principal Strip Certificates to be so converted and reduce, by the amount so converted, the number of separate Principal Strip Certificates and Tax Credit Certificates.

Modifications of the Indenture. The Indenture shall be amended, by written agreement of the Board and Trustee, and certain provisions of the Indenture shall be waived, each without the consent of the Owners of the Bonds, Interest Bearing Bonds, Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates or any other Person (as defined in the Indenture), if (a) an amendment to the

Code is adopted, or a new or modified official interpretation of the Code is issued, after the effective date of the Indenture which is applicable to the Tax Credit Program and the transactions contemplated thereby; (b) legislation has been enacted by the United States or the State, or a decision shall have been rendered by a court of the United States or the Tax Court of the United States, or a ruling shall have been made or a regulation, proposed regulation or a temporary regulation or an official statement shall have been published in the Federal Register or any other release or announcement shall have been made by or on behalf of the Treasury Department of the United States, U.S. Securities and Exchange Commission or the IRS with respect to the stripping of Principal Strip Certificates or Tax Credit Certificates from the related Bonds, or (c) rules, procedures or guidance have been adopted by DTC or any successor or replacement securities depository with respect to the stripping of Principal Strip Certificates or Tax Credit Certificates from the related Bonds, provided that in each case the Board has delivered to the Trustee an opinion of counsel addressed to the Board and the Trustee to the effect that performance by the Board and Trustee under the Indenture as so amended or giving effect to such waiver, as the case may be, will not result in a violation of Sections 54A or 54F of the Code. The Board will give to the Owners of the Bonds and Principal Strip Certificate and Tax Credit Certificates, if any, prompt notice of any such amendment to or waiver of any provision of the Indenture.

Form and Registration

The Bonds will be initially issued in book-entry form only, in denominations of \$40,000 or integral multiples thereof, and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. DTC will act as securities depository for the Bonds and, if separated, the Principal Strip Certificates and the Tax Credit Certificates, and registered ownership of the Bonds, the Principal Strip Certificates and Tax Credit Certificates, as applicable, may not thereafter be transferred except as provided in the Resolutions and the Indenture.

If separated, Principal Strip Certificates will be executed and delivered in denominations of \$40,000 or integral multiples thereof and Tax Credit Certificates will be executed and delivered in denominations of an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate, or any integral multiple thereof; except that the Authorized Denomination for Tax Credit Certificates with respect to the first Tax Credit Allowance Date will be pro rated by the number of days from the date of initial issuance and delivery of the Bonds to the first Tax Credit Allowance Date.

Purchasers will not receive physical delivery of the Bonds purchased by them or the Principal Strip Certificates and the Tax Credit Certificates separated therefrom. Payments of principal of and interest on the Bonds will be made by the Trustee to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds.

Neither the Board nor DTC assumes responsibility for the processing of Tax Credits, whether or not stripped, by the Beneficial Owners thereof; nor will the Board nor DTC play any role in the process by which a Beneficial Owner might claim all or a ratable share of a Tax Credit against its federal income tax liability arising while the Bonds are outstanding. Beneficial Owners will have the sole responsibility for claiming Tax Credits and resolving any impact that ownership of the Tax Credits may have upon their federal income tax or state income tax liability as a consequence of ownership thereof See “– **Book-Entry Only System**” below.

Book-Entry System for Principal Strip Certificates and Tax Credit Certificates

If a Principal Strip Certificate and the related Tax Credit Certificates are separated, then the Principal Strip Certificates and the related Tax Credit Certificates will be executed and delivered, in book-entry only form, registered in the name of “Cede & Co.” as nominee of DTC. Owners of the Bonds,

which have been so separated will receive one Tax Credit Certificate for each Tax Credit Allowance Date for the related Bonds in amounts equal to Authorized Denominations.

Pursuant to the Indenture, DTC will be the depository for the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable, and registered ownership of the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable, may not thereafter be transferred except as provided in the Indenture.

In the case of any transfer relating to a successor of Cede & Co. or any substitute depository, as nominee of DTC, upon receipt of the Principal Strip Certificates and Tax Credit Certificates, as applicable, related to outstanding Bonds by the Trustee, together with a written request, new Principal Strip Certificates and Tax Credit Certificates, as applicable, for the same related series of Bonds, and maturity will be executed and delivered pursuant to the procedures described in the Indenture in the aggregate principal amount of the Bonds then outstanding, registered in the name of such successor or such substitute depository, all as specified in such written request. In the case of any transfer pursuant to the resignation or removal of DTC or its successor (or any substitute depository), upon receipt of the Principal Strip Certificates and Tax Credit Certificates, as applicable, related to outstanding Bonds by the Trustee together with a written request, new Principal Strip Certificates and Tax Credit Certificates, as applicable, related to such Bonds will be executed and delivered in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested in such written request, and thereafter, the Principal Strip Certificates and Tax Credit Certificates related to such Bond will be transferred pursuant to the provisions of the Indenture.

So long as the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable, are registered in the name of Cede & Co. or its registered assigns, the Board and the Trustee will cooperate with Cede & Co., as sole holder, or its registered assigns, in effecting payment of the redemption price, if any, of the Principal Strip Certificates and Tax Credit Certificates, as applicable, by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available (e.g., by wire transfer) on the date they are due. So long as the Tax Credit Certificates are registered in the name of Cede & Co. or its registered assigns, the Trustee will provide notice to DTC of the expiration of each Tax Credit Certificate not less than forty-five (45) days prior to the Tax Credit Allowance Date for such Tax Credit Certificate.

Redemption of the Bonds

No Optional or Mandatory Sinking Fund Redemption. The Bonds are not subject to optional or mandatory sinking fund redemption prior to their stated maturity.

Extraordinary Mandatory Redemption. The Bonds are subject to extraordinary mandatory redemption, in whole or in part, on March 15, 2013, or thereafter on any Tax Credit Allowance Date if such date has been extended with the consent of the IRS, in Authorized Denominations, at a redemption price equal to the principal amount of the Bonds to be redeemed, in an amount computed by reference to the unexpended proceeds of the Bonds as of the third anniversary of their date of issuance (or later date if extended). The Trustee shall select the date of redemption and give notice thereof as described below under “– ***Notice of Redemption,***” which date shall be within 90 days after December 17, 2012, as such date may have been extended with the consent of the IRS.

In the event that the ownership of the Principal Component and the Tax Credit Component has been separated from the ownership of the Bonds and registered separately, the Principal Strip Certificates and the Tax Credit Certificates will be called for redemption in the same manner as the Bonds and the redemption price therefor will be allocated to the Principal Strip Certificates and the Tax Credit

Certificates in the proportions and values set forth in **APPENDIX D — “TABLE OF REDEMPTION VALUES”** attached hereto.

Pursuant to the Undertaking (as defined herein), the Board has covenanted to provide notice of its final expenditure of the proceeds of the Bonds from the Project Fund in the same manner as it has undertaken to provide notice of certain Events (as defined herein). See “**CONTINUING DISCLOSURE UNDERTAKING – Events Notification; Material Events Disclosure**” herein.

Selection of Bonds for Redemption. Redemption of the Bonds will be effected in \$40,000 increments, so that any Bond redeemed in part will have a remaining notional amount of \$40,000 or an integral multiple thereof. The Trustee will effect each redemption of the Bonds by instructing DTC to provide for the pro rata redemption from each DTC Participant of an amount of such Bonds determined by multiplying the principal amount of the Bonds to be redeemed on said redemption date by a fraction, the numerator of which is the principal amount of the Bonds held by such DTC Participant and the denominator of which is the principal amount of all the Bonds outstanding immediately prior to the date of redemption, and then rounding the product down to the next lower integral multiple of \$40,000. Any remaining amount of proceeds will be applied to the redemption of Bonds by lot in Authorized Denominations as determined by DTC. See “**– Book-Entry Only System**” below. Neither the Board nor the Trustee shall have any responsibility to ensure that DTC or its Participants properly select such Bonds for redemption. The Principal Strip Certificates and the Tax Credit Certificates related to the Bonds called for redemption will also be called for redemption.

In the event of a mandatory redemption of Bonds from unexpended bond proceeds and in the event that Bonds have been exchanged for Principal Strip Certificates and Tax Credit Certificates (in whole or in part) and registered separately pursuant to the Indenture, the redemption amount shall be allocated, as nearly as reasonably possible, pro rata between (i) Bonds and (ii) an amount of (a) Principal Strip Certificates and (b) Tax Credit Certificates that would relate to such principal amount of Principal Strip Certificates, based upon the relative principal amounts of the outstanding Bonds and the outstanding Principal Strip Certificates. Any Principal Strip Certificates and Tax Credit Certificates to be so redeemed shall also be called for redemption on the same terms and conditions and in the same manner as the Bonds, and the price for redemption to be paid by the Board and used to redeem Principal Strip Certificates and Tax Credit Certificates so redeemed shall be allocated to the Bonds, Principal Strip Certificates and the Tax Credit Certificates in the proportions and values set forth in the **APPENDIX D — “TABLE OF REDEMPTION VALUES”** attached hereto.

Notice of Redemption. Notice of redemption of any Bond or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, will be given by the Trustee. Notice of any redemption of Bonds or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date by first class mail to the respective Owners thereof at the addresses appearing on the registration books.

Each notice of redemption will contain the following information: (i) the maturity and CUSIP number of the Bonds or, if stripped, the related Principal Strip Certificate and Tax Credit Certificate, to be redeemed, (ii) the date fixed for redemption, (iii) the place or places where amounts due upon such date fixed for redemption will be payable, (iv) if less than all of the Bonds or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds or related Principal Strip Certificate and Tax Credit Certificate so to be redeemed, (v) in the case of Bonds or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and (vi) the redemption price of each Bond or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, to be redeemed, or the redemption price of the specified portions of the

principal thereof in the case redemption in part only, together with interest accrued to the date fixed for redemption. Such notice will further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. The actual receipt by the Owner of any Bond, or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such series of Bonds or, if stripped, related Principal Strip Certificate and Tax Credit Certificate.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Bonds or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, called for redemption is set aside for such purpose, the Bonds, or, if stripped, Principal Strip Certificate and Tax Credit Certificate, designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon or the value thereof accrete as of the redemption date. The Owners of such Bond or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, so called for redemption after such redemption date will look for the payment of such Bonds or, if stripped, related Principal Strip Certificate, and the redemption premium thereon, if any, only to the account or the escrow fund established for such purpose.

Conversion of Bonds into Interest Bearing Bonds

General. The Indenture provides that, on the Tax Credit Conversion Date, the Bonds will be converted, in whole or in part, into Interest Bearing Bonds which, in lieu of providing the owner thereof credits against federal income tax liability, bear interest (in addition to the Supplemental Coupon) at the Tax Credit Rate, payable on each Cash Interest Payment Date, commencing on the March 15, June 15, September 15 or December 15 immediately following the Tax Credit Conversion Date. Upon any such conversion, each Interest Bearing Bond so converted will bear interest from the Cash Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date immediately preceding any Cash Interest Payment Date to and including such Cash Interest Payment Date, in which event it will bear interest from such Cash Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Cash Interest Payment Date, in which event it will bear interest from the Tax Credit Conversion Date. Such interest would be computed on the basis of a 360-day year of twelve 30-day months.

If Bonds are converted, in whole or in part, into Interest Bearing Bonds, the Indenture provides that (i) such Bonds, any Principal Strip Certificates relating thereto and any related Tax Credit Certificates representing Tax Credits for Tax Credit Allowance Dates occurring after the Tax Credit Conversion Date shall, on the Tax Credit Conversion Date, or as soon thereafter as practical, be exchanged by the Owner thereof for Interest Bearing Bonds, Principal Strip Certificates relating to the Interest Bearing Bonds and Cash Interest Certificates without the need for any further action or proceeding by the Board, (ii) such Interest Bearing Bonds, related Principal Strip Certificates and Cash Interest Certificates shall, from and after the Tax Credit Conversion Date, be Interest Bearing Bonds, related Principal Strip Certificates and Cash Interest Certificates, respectively, for all purposes of the Indenture, and (iii) if the Bonds that have been converted to Interest Bearing Bonds have not already ceased to be “qualified school construction bonds” under Section 54F of the Code as a result of a Determination of Loss of Qualified School Construction Bond Status, such Bonds, from and after the Tax Credit Conversion Date, shall cease to be “qualified school construction bonds” under Section 54F of the Code. Interest Bearing Bonds shall bear interest (in addition to the Supplemental Coupon) from the Tax Credit Conversion Date (with appropriate adjustment for any Tax Credits that in fact will be allowed to the Owner by the IRS subsequent to such Tax Credit Conversion Date) to maturity at an interest rate per annum equal to the Tax Credit Rate, payable quarterly on each Cash Interest Payment Date. Such interest shall be computed on the basis of a

360-day year of twelve 30-day months. The Owner of any Interest Bearing Bond or Principal Strip Certificate related thereto shall be entitled to the Supplemental Coupon related to the Bond so converted. The Indenture provides that, if Bonds are converted, in whole or in part, into Interest Bearing Bonds, any Bonds related thereto, Principal Strip Certificates related thereto or Tax Credit Certificates related thereto not exchanged for Interest Bearing Bonds, Principal Strip Certificates related thereto and Cash Interest Certificates by the Owners thereof shall be deemed to be so exchanged. The Owner of any Principal Strip Certificate related to an Interest Bearing Bond will be entitled to the Supplemental Coupon related to the Bond prior to its conversion to such Interest Bearing Bond.

Upon a conversion, in whole or in part, of Bonds into Interest Bearing Bonds in accordance with the Indenture, the Trustee will send a written notice to the Owners of such Bonds, Principal Strip Certificates and Tax Credit Certificates, stating that (i) as of the Tax Credit Conversion Date, the related Bonds have been or shall be converted into Interest Bearing Bonds for all purposes of the Indenture, and (ii) such Owners are required to deliver, on the Tax Credit Conversion Date or as soon thereafter as practical, their Bonds, any Principal Strip Certificates relating thereto and Tax Credit Certificates (for Tax Credit Allowance Dates occurring after the Tax Credit Conversion Date) to the Trustee in exchange for an Interest Bearing Bond or Bonds, Principal Strip Certificates relating to the Interest Bearing Bonds and Cash Interest Certificates in Authorized Denominations in the same respective face amount as such Bonds, any Principal Strip Certificates relating to such Bonds and Tax Credit Certificates so delivered by such Owners. Upon the conversion, in whole or in part, of Bonds into Interest Bearing Bonds, Principal Strip Certificates relating to Bonds into Principal Strip Certificates relating to Interest Bearing Bonds and Tax Credit Certificates, if any, into Cash Interest Certificates, the Indenture provides that the Board shall execute, and the Trustee shall authenticate and deliver, to the Owners of such Bonds, Principal Strip Certificates relating to the Bonds and Tax Credit Certificates, if any, entitled thereto, fully registered Interest Bearing Bonds, Principal Strip Certificates relating to such Interest Bearing Bonds and Cash Interest Certificates in substantially the forms authorized in the Indenture.

In addition, in the event that any Tax Credits that have been recognized by an Owner with respect to Tax Credit Allowance Dates occurring on or prior to the Tax Credit Conversion Date are determined to be ineligible as Tax Credits as a result of a Determination of Loss of Qualified School Construction Bond Status, the Board will pay to the Trustee for distribution to the respective Owners (as of the applicable Tax Credit Allowance Dates for such disallowed Tax Credits) of the Bonds or Tax Credit Certificates, as appropriate, an amount equal to the amount of such disallowed Tax Credits, plus interest thereon from the applicable Tax Credit Allowance Date to the date of payment to the Trustee, compounded quarterly at the rates equal to the large corporate underpayment rates determined from time to time by the IRS during such interest compounding period to be paid on or before the January 15th following the next succeeding August 1st after the Date of Determination of Loss of Qualified School Construction Bond Status. The moneys required to be paid by the Board pursuant to the preceding sentence shall be paid to the Trustee and deposited into a special account held by the Trustee. Such moneys shall be distributed by the Trustee to the Owners entitled thereto as verified in a statement of claim signed by the Owner and filed with the Trustee.

The term “**Date of Determination of Loss of Qualified School Construction Bond Status**” is defined in the Indenture to mean the date on which the IRS or a court of competent jurisdiction has issued to the Board a Determination of Loss of Qualified School Construction Bond Status.

The term “**Determination of Loss of Qualified School Construction Bond Status**” is defined in the Indenture to mean (i) a final determination by the IRS (after the Board has exhausted or waived all administrative and judicial appeal remedies) determining that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status and the amount of Bonds that are subject to the Accountable Event of Loss of

Qualified School Construction Bond Status, or (ii) a non-appealable holding by a court of competent jurisdiction holding that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status.

The term “**Accountable Event of Loss of Qualified School Construction Bond Status**” is defined in the Indenture to mean (i) any act or any failure to act on the part of the Board constituting a breach of a covenant or agreement of the Board contained in the Indenture or the Tax Agreement of the Board relating to the Bonds (the “**Tax Agreement**”) which causes the Bonds to lose their status, or fail to qualify, as “qualified school construction bonds” within the meaning of Section 54F of the Code, or (ii) the making by the Board of any representation contained in the Indenture, the Tax Agreement or the Bonds, as applicable, which was untrue when made and the untruth of which representation at such time causes the Bonds to lose their status, or fail to qualify, as “qualified school construction bonds” within the meaning of Section 54F of the Code.

The term “**Date of Loss of Qualified School Construction Bond Status**” is defined in the Indenture to mean the date specified in a Determination of Loss of Qualified School Construction Bond Status as the date from and after which the Bonds lost their status, or failed to qualify, as “qualified school construction bonds” as defined in Section 54F of the Code as a result of an Accountable Event of Loss of Qualified School Construction Bond Status. Such date could be as early as the date of initial issuance and delivery of the Bonds.

The term “**Tax Credit Conversion Date**” is defined in the Indenture to mean the December 15 following the next succeeding August 1 after the Date of Determination of Loss of Qualified School Construction Bond Status.

Separation of Principal Component and Cash Interest Payment Component. The Interest Bearing Bonds, if any, will include a Principal Component and a Cash Interest Payment Component relating to the Cash Interest Payments, and, at the option of an Owner of an Interest Bearing Bond, the ownership of the Principal Component and the Cash Interest Payment Component may be separated or “stripped” from such Interest Bearing Bond. The Indenture provides that, at any time, by written request to the Trustee in the form attached thereto (the “**Cash Interest Strip Request**”), the Owner of an Interest Bearing Bond may, upon presentation of such Interest Bearing Bond, direct the Trustee to authenticate and deliver a Principal Strip Certificate in a principal amount equal to the principal amount of the Interest Bearing Bonds to be so separated and Cash Interest Certificates representing the entitlement to the Cash Interest Payment Component with respect to such Interest Bearing Bonds to be converted. The form of the Cash Interest Strip Request may be modified or amended by the Trustee with the prior written consent of the Board.

Upon the receipt of a request and the presentation of an Interest Bearing Bond to be stripped pursuant to the Indenture, the Trustee will: (i) authenticate and deliver to or upon the order of the Owner so requesting, a Principal Strip Certificate in a principal amount equal to the principal amount of the related Interest Bearing Bond so presented; (ii) authenticate and deliver to or upon the order of the Owner so requesting, Cash Interest Certificates for each remaining Cash Interest Payment Date in accordance with the Indenture, in an amount equal to twenty five percent (25%) of the product of (a) the principal amount of the related Interest Bearing Bond so presented and (b) the Tax Credit Rate; and (iii) contemporaneously with the delivery thereof, reduce, by the amount so converted the amount of Interest Bearing Bonds that have not been stripped. Upon any separation of the ownership of the Principal Component of an Interest Bearing Bond from the entitlement of the Owner thereof to the related Cash Interest Payments, the Owner of the Principal Strip Certificate related thereto will be entitled to the interest payments of the Supplemental Coupon related thereto.

The Indenture provides that, notwithstanding the separation, if any, of the ownership of the Principal Component of an Interest Bearing Bond from the entitlement of the Owner thereof to the related Cash Interest Payment Component, the previously combined Interest Bearing Bond will remain outstanding and the ownership of Principal Strip Certificates evidencing the rights to the related Principal Components, the Supplemental Coupon related thereto and the ownership of the Cash Interest Certificates evidencing the rights to such Cash Interest Payments related thereto will constitute such outstanding Interest Bearing Bond.

Recombining of Principal Component and Cash Interest Payment Component. The Owner of a Principal Strip Certificate and the requisite number of Cash Interest Certificates may recombine such Principal Strip Certificate and Cash Interest Certificates into unstripped Interest Bearing Bonds. The Indenture provides that, at any time, by written request to the Trustee in the form attached thereto (the “**Cash Interest Recombination Request**”), the Owner of a Principal Strip Certificate and sufficient Cash Interest Certificates having payment dates corresponding to each and every Cash Interest Payment Date that would remain with respect to an Interest Bearing Bond, and having a face amount with respect to each such Cash Interest Payment Date equal to the amount of the Cash Interest Payment Component that would be paid on an Interest Bearing Bond with a principal amount equal to the Principal Strip Certificates to be recombined, may, upon presentation of such Principal Strip Certificates and Cash Interest Certificates, direct the Trustee to authenticate and deliver an Interest Bearing Bond in a principal amount equal to the principal amount of the Principal Strip Certificate to be so converted. The form of the Cash Interest Recombination Request may be modified or amended by the Trustee with the prior written consent of the Board. Upon the receipt of a request and the presentation of the Principal Strip Certificate and Cash Interest Certificates to be recombined, the Trustee is required under the Indenture to authenticate and deliver an unstripped Interest Bearing Bond in a principal amount equal to the face amount of the Principal Strip Certificates to be so converted, and reduce, by the amount so converted, the separate Principal Strip Certificates and Cash Interest Certificates.

Form and Registration. The Interest Bearing Bonds, if any, will be delivered in book-entry form only and will be registered in the name of Cede & Co., as nominee for DTC. The Interest Bearing Bonds, if any, will be delivered in denominations of \$5,000 or any integral multiple thereof; provided, however, that, if separated, Principal Strip Certificates will be executed and delivered in denominations of \$40,000 or integral multiples thereof and Cash Interest Certificates will be executed and delivered in denominations of an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate, or any integral multiple thereof.

Defeasance

If at any time the Board shall pay or cause to be paid, there shall otherwise be paid or provision for payment is made in accordance with the Indenture, to the Owners of all Bonds, or all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee), the principal or redemption price, if applicable, and interest on such Bonds, at the times and in the manner provided in the Bonds and the Indenture, then such Owners shall cease to be entitled to the obligation of the Board described below under the caption “**SECURITY FOR THE BONDS**” and such obligation and all agreements and covenants of the Board to such Owners under such Bonds and the Indenture will thereupon be satisfied and discharged and will terminate. All or any portion of the outstanding maturities of Bonds may be defeased prior to maturity if the Board shall have delivered to or deposited with the Trustee: (i) moneys in an amount which shall be sufficient, or (ii) Defeasance Obligations (as defined below) the principal of and the interest on which when due will provide moneys which shall be sufficient, without further reinvestment to pay when due the principal or redemption price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be.

THE BOARD WILL NOT CAUSE ALL OR ANY PORTION OF THE BONDS TO BE DEFEASED AND DEEMED PAID UNLESS, PRIOR THERETO, (I) THE BOARD SHALL HAVE OBTAINED A RULING OR OTHER OFFICIAL PRONOUNCEMENT FROM THE IRS TO THE EFFECT THAT SUCH DEFEASANCE OF THE BONDS WILL NOT CAUSE A LOSS OF THE ASSOCIATED TAX CREDITS, OR (II) THE IRS SHALL HAVE PROMULGATED REGULATIONS OR PUBLISHED A REVENUE RULING, REVENUE PROCEDURE, NOTICE OR OTHER OFFICIAL PRONOUNCEMENT THAT SUCH DEFEASANCE WILL NOT CAUSE A LOSS OF TAX CREDITS.

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

“**Government Obligations**” means:

(i) any direct obligations of, or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America (including United States Treasury STRIPS), and

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

Book-Entry Only System

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the “**Exchange Act**”). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the “**SEC**”). More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

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

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

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

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Estimated Sources:

Proceeds of the Bonds	<u>\$254,240,000</u>
Total Estimated Sources of Funds	\$254,240,000

Estimated Uses:

Deposit to the Project Fund	\$251,721,700
Deposit to fund costs of issuance ¹	<u>2,518,300</u>
Total Estimated Uses of Funds	\$254,240,000

¹ Includes the Underwriters' discount, rating agency, legal and accounting fees and other estimated costs of issuance incurred in connection with the issuance of the Bonds.

SECURITY FOR THE BONDS

General

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

The Bonds will be payable from and secured by a pledge of (i) State Aid Revenues which are payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future, not in excess of \$225,000,000 available under the 2008 Authorization in any year (“**Pledged State Aid Revenues**”), (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the “**Pledged Taxes**”), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged State Aid Revenues are not available in sufficient amounts to pay the debt service on the Bonds. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

General State Aid

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

GSA consists of a regular foundation formula claim, as explained below, and a poverty grant. The calculation of the regular foundation claim depends primarily upon a school district’s best three months’ average daily attendance and local resources, such as equalized assessed valuation of property and corporate personal property replacement tax revenues within the school district. The GSA formula used through fiscal year 1998 provided for different methods of allocation, depending primarily upon the equalized assessed valuation of property within a school district’s boundaries. The amount of GSA distributed to school districts was determined by the annual State appropriation. The GSA formula was amended in 1997. In subsequent years, this “foundation level” has been set by the General Assembly. The minimum or “foundation level” of GSA per pupil was \$4,964 in fiscal year 2005, \$5,164 in fiscal year 2006, \$5,334 in fiscal year 2007, \$5,734 in fiscal year 2008, \$5,959 in fiscal year 2009 and \$6,119 in fiscal year 2010. No assurance can be given that the “foundation level” will be increased or even funded at current levels in future fiscal years. Legislation adopted in 1999 by the General Assembly increased GSA funding for school districts that would otherwise experience a decrease in this funding because of increases in equalized assessed valuation of real property.

The poverty grant provides additional resources for school districts that have a high concentration of low-income pupils. Before fiscal year 2004, the low-income eligible pupil count came from the most recently available federal census. The per-pupil amount of the poverty grant that applied to the Board was \$1,333 for fiscal year 2002 and \$1,362 for fiscal year 2003. In May 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, a new

poverty count prepared by the Illinois Department of Human Services was used starting in fiscal year 2004. The fiscal year 2004 count was an average of the 2002 and 2003 count of children who were eligible for assistance under Medicaid, Kidcare, Food Stamps, or Temporary Assistance for Needy Families (“TANF”). The poverty count for fiscal year 2005 and each year thereafter is the average of the children eligible for Medicaid, Kidcare, Food Stamps and TANF for the three previous years. Under the new formula, the per-pupil poverty grant amount changed from \$1,230 for fiscal year 2004, to \$1,264 for fiscal year 2005, \$1,327 for fiscal year 2006, \$1,466 for fiscal year 2007, \$1,638 for fiscal year 2008, \$1,861 for fiscal year 2009 and \$2,035 for fiscal year 2010. This per-pupil poverty grant amount is multiplied by the poverty count to generate a poverty grant total.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 2000 through 2010, the required contributions for Supplemental General State Aid allocations to individual schools, and the net amount available for deposit into the General Fund.

General State Aid
Fiscal Years 2000 – 2010
(Dollars in Millions)

Fiscal Year	Total GSA Claim ⁽¹⁾	Supplemental General State Aid Allocation	Unrestricted GSA General Fund Deposit ⁽²⁾
2000	711.1	261.0	450.1
2001	724.5	261.0	463.5
2002	787.2	261.0	526.2
2003	768.1	261.0	507.1
2004	840.7	261.0	579.7
2005	910.4	261.0	649.4
2006	962.5	261.0	701.5
2007	1,023.9	261.0	762.9
2008	1,091.1	261.0	830.1
2009	1,139.7	261.0	878.7
2010	1,152.8	261.0	891.8

(1) Source: Illinois State Board of Education. Net of Illinois State Board of Education audit adjustments.

(2) Reflects moneys available to fund Pledged State Aid Revenues and pledges of State Aid Revenues made in connection with other obligations of the Board.

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

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds if Pledged State Aid Revenues are insufficient. The Pledged Taxes are *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount. However, based on projected receipts of Pledged State Aid Revenues, the Board anticipates that all Pledged Taxes will be abated on a year-by-year basis prior to such taxes being extended. To the extent that the Pledged State Aid Revenues are not available in sufficient amounts, the debt service on the Bonds is payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection, in any year, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage

attributable to the levy of the Pledged Taxes for the payment of the debt service on the Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the Indenture. The Board has covenanted in the Indenture to take all actions necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds. For additional information concerning the levy and collection of the Pledged Taxes, see **“THE REAL PROPERTY TAX SYSTEM – Real Property Assessment, Tax Levy and Collection Procedures.”**

Debt Service Fund and Accounts

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

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Trustee from time to time with instructions for deposit into such Sub-Account, and (ii) any payments made by Swap Providers, if any, under Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds. All or a portion of such amounts so deposited to the credit of the Interest Deposit Sub-Account shall be transferred no later than the next succeeding date upon which interest on the Bonds is due (an **“Interest Payment Date”**) to the Interest Sub-Account in the Bond Payment Account and applied to pay up to the amount of interest then due on the Bonds on such Interest Payment Date. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

The Board has provided in the Indenture for Annual Sinking Fund Payments to be deposited into the Principal Sub-Account. Such amounts, together with any supplemental amount provided by the Board which may be necessary, will be used for the payment of principal on the Bonds at maturity. The Indenture provides for the following amounts to be deposited by December 15 of the following years in the following annual amounts, subject to adjustment as described below (see **“– Application of Pledged State Aid Revenues; Abatement of Pledged Taxes”**):

<u>Year</u>	<u>Annual Sinking Fund Payment</u>
2010	\$ 845,984
2011	12,550,800
2012	14,238,729
2013	14,238,729
2014	14,238,729
2015	14,238,729
2016	14,238,729
2017	14,238,729
2018	14,238,729
2019	14,238,729
2020	14,238,729
2021	14,238,729
2022	14,238,729
2023	14,238,729
2024	14,238,729

If Bonds are redeemed prior to maturity by extraordinary mandatory redemption as described under “**THE BONDS – Redemption of the Bonds,**” then the Annual Sinking Fund Payment due on each December 15 after the redemption date shall be reduced by the amount obtained by multiplying the Annual Sinking Fund Payment set forth for such year in the proceeding table by a fraction the numerator of which is the principal amount of Bonds redeemed pursuant to such extraordinary mandatory redemption and the denominator of which is the principal amount of Bonds Outstanding as of the time immediately prior to such redemption. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

Application of Pledged State Aid Revenues; Abatement of Pledged Taxes

On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes with respect to the Bonds as described below (each such date being referred to as a “**Deposit Date**”), the Board shall deposit to the credit of the Pledged State Aid Revenues Sub-Account such amounts derived from Pledged State Aid Revenues, as shall be necessary to cause the amount on deposit in said Sub-Account to equal the sum of (i) the interest on and principal of the Bonds that will become due and payable during the then-current annual period beginning on December 2 of the prior year to and including December 1 of the current year (each a “**Bond Year**”), (ii) the Annual Sinking Fund Payment that will become due and payable during the then-current Bond Year. Once such deposit has been made, the Board shall take such actions as are necessary to abate in full the Pledged Taxes levied to otherwise provide funds for the payment of the debt service on the Bonds during the then-current Bond Year, and (iii) to the Principal Sub-Account on or before December 15, 2025 an amount required for the payment of the principal amount of the Outstanding Bonds, if any, which mature on such date, less the amount then on deposit in the Principal Sub-Account and available for such payment. The Board shall make the deposit required pursuant to this paragraph on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

On or before February 16 of each year, whenever sufficient funds are on deposit in the Pledged State Aid Revenues Account as shall be necessary to pay the principal of and interest on the Bonds due during the current Bond Year, the Trustee shall deliver to the Board a notice evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes with respect to the Bonds.

In the event that on any Deposit Date there has been deposited to the credit of the Pledged State Aid Revenues Account an insufficient amount to satisfy the amount described in the preceding paragraph, the Board shall take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged State Aid Revenues Account, to provide funds sufficient to satisfy such amount described in the preceding paragraph.

The Board may suspend annual deposits to the Pledged State Aid Revenues Sub-Account and annual deposits to the Pledged Taxes Account in each case to the extent such deposits are to be made in satisfaction of the requirement to make Annual Sinking Fund Payments whenever the sum of the Investment Securities (as defined in the Indenture), without reinvestment, and the moneys held in the Principal Sub-Account is sufficient to provide for the punctual payment of the principal amount of the Outstanding Bonds at maturity.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on December 16 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture and the Trustee will

provide notice to the Board that such amounts constitute State Aid Revenues. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds. The Annual Sinking Fund Payments, when deposited in accordance with the Indenture, will be funds pledged to the payment of the Bonds. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

2008 Authorization Bonds

Alternate Bonds issued under the 2008 Authorization are currently outstanding. See **“SECURITY FOR THE BONDS – General”** and **“– General State Aid.”** The Board’s (i) \$262,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, (ii) \$240,975,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, (iii) \$464,655,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (iv) \$130,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, (v) \$518,210,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds “Direct Payment”), and (vi) \$29,125,000 Tax-Exempt Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F collectively, the **“2008 Authorization Bonds”**) are the only Alternate Bonds currently outstanding under the 2008 Authorization.

After issuance of the Bonds, the full amount of the \$1,900,000,000 aggregate principal amount of Alternate Bonds currently authorized under the 2008 Authorization will have been issued by the Board. For additional information, see **BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.”**

Additional Bonds Payable From Pledged State Aid Revenues

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable from (i) all or any portion of the Pledged State Aid Revenues, and / or (ii) any other source of payment which may be pledged under the Debt Reform Act, provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Any such Additional Bonds shall, to the extent they are secured by Pledged State Aid Revenues, share ratably and equally in the Pledged State Aid Revenues with the Bonds and the 2008 Authorization State Aid Bonds. For additional information see **“INTRODUCTION – Authorization for the Bonds.”**

Other Additional Indebtedness

In addition, the Board reserves the right to issue bonds or other evidences of indebtedness payable from additional designated amounts of the Board’s State Aid Revenues (that are not Pledged State Aid Revenues which secure the Bonds) under future authorizing resolutions.

Bonds Are Obligations of the Board

The Bonds are the direct and general obligations of the Board to the payment of which the Board has pledged its full faith and credit and taxing power. The Bonds are not the obligations of the City, the State or any other political subdivision of the State (other than the Board). Neither the full faith and credit

nor the taxing power of the City, the State or any other political subdivision of the State (other than the Board) is pledged to the payment of the Bonds.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

The Board is a body politic and corporate and a school district of the State of Illinois. The Board is established under and governed by the School Code and is a non-home rule unit of government. The Board maintains a system of public schools within its boundaries (the “**School District**”) for grades kindergarten through twelve.

The School District has boundaries coterminous with the boundaries of the City of Chicago. In addition to its Board, elected local school councils, composed of parents, teachers, principals and community representatives, exercise certain powers relating to the operation of individual schools in the public school system, including selection of principals.

Governing Body

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

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

The office of President of the Board is currently vacant. Under the rules of the Board, the Vice President of the Board is empowered to carry out the duties of the President.

The current members of the Board are as follows:

Clare Muñana is Vice President of the Board and a public sector, not-for-profit and management consultant operating her own firm. Ms. Muñana has performed numerous domestic and international engagements for public sector and private sector clients in the U.S., Europe, Africa and Latin America. Ms. Muñana holds a Bachelors degree from Boston College, Masters degree in International Relations from the School of Advanced International Studies at The Johns Hopkins University and a Masters in Business (MBA) from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana also holds a certificate in French Civilization and Language from the Sorbonne. Ms. Muñana is a Board Member of The Aspen Institute, The Chicago Council on Global Affairs, The Field Museum, and a Trustee of the National Museum of Mexican Arts. She serves with several other civic groups, including the Chicago Public Education Fund and Nuestro Futuro, an initiative of the Chicago CommunityTrust dedicated to enhancing philanthropy within the Latino community.

Norman R. Bobins is chairman of Norman Bobins Consulting, LLC (NBC), which provides financial consulting services to various clients. He also serves as the non-executive chairman of The

PrivateBank and Trust Company. Prior to that, Mr. Bobins was the chairman and chief executive officer of LaSalle Bank Corporation. Mr. Bobins served as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago and was a member of the Public Building Commission of Chicago. Mr. Bobins received a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration from the University of Chicago. Mr. Bobins is active in several civic organizations, chairman of the board of trustees of WTTW Communications, Inc., and member of the Field Museum, the Newberry Library and the Children's Brain Research Foundation.

Dr. Tariq Butt is a Board Certified Family Physician with teaching appointments at the University of Illinois' Medical College, Rush University Medical School, and the Faculty with Mt. Sinai Family Residency Program affiliated with the Chicago Medical School. Dr. Butt is Deputy Medical Director of the Access Community Health Network. As part of his medical practice, Dr. Butt provides a range of medical services to patients on the west side of the City, regardless of their ability to pay. Dr. Butt has also served as Chairman of the Mayor's Asian-American Advisory Council. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards and National School Board Association – Counsel of Urban Boards of Education (NSBA-CUBE) Steering Committee Member.

Alberto A. Carrero, Jr. is President of CBSS, USA, a firm which provides financial, operational and business consulting, advice and services. Mr. Carrero retired from Banco Popular North America (“**Banco Popular**”) as Senior Vice President at the end of 2008, after a 21-year career which allowed him to hold a variety of executive positions in several different states in the U.S. Prior to joining Banco Popular, Mr. Carrero worked for the Federal Deposit Insurance Company (FDIC) in the New York Region. Mr. Carrero graduated from the University of Puerto Rico with a degree in Business Administration and Finance. On November 19, 2008, he was reappointed by the Board to serve as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago. His affiliations include membership in the National Association of Latino Elected and Appointed Officials and the Institute of Puerto Rican Art and Culture, where he serves as a member of the Financial Committee. Mr. Carrero has been the recipient of numerous awards from Illinois and New York City and State agencies for excellence in business.

Peggy A. Davis is the Vice President of Diversity and Recruiting at the Exelon Business Services Corporation. Ms. Davis also serves as a Board Trustee to the Public School Teachers' Pension and Retirement Fund of Chicago. She was a former partner in the government relations and labor and employment practices at Winston & Strawn LLP. She also has extensive experience in the public sector, including her most recent service as chief of staff to the Chicago Public Schools CEO. She served nine years as general counsel to the Metropolitan Pier and Exposition Authority and also worked for the City of Chicago's law department and the Chicago office of the Equal Employment Opportunity Commission. Ms. Davis received a bachelor's degree in social welfare and a Juris Doctor degree from the University of Wisconsin Milwaukee.

Roxanne M. Ward is Vice President and Corporate Liaison of Ariel Capital Management, LLC (“**Ariel**”), a Chicago-based investment management firm founded in 1983. Ms. Ward also is President of the Black Corporate Directors Conference. Prior to joining Ariel, Ms. Ward spent four years working for the Chicago Park District as the First Assistant General Counsel, Board Liaison and Legislative Liaison. Ms. Ward has spent more than 15 years working as a private sector attorney in the Chicago offices of Skadden, Arps, Slate, Meagher and Flom and Mayer, Brown & Platt. Ms. Ward has been actively involved with many civic and community organizations. Ms. Ward served as Co-Chair of the City of Chicago Mayoral Policy Caucus on Prisoner Reentry and serves on the Board of Directors of WTTW, the Safer Foundation and the Federation for Community Schools. Ms. Ward is also a former member of the Desegregation Monitoring Commission and of the Boards of the Illinois Facilities Fund and Congo

Square Theater Company. Ms. Ward graduated Phi Beta Kappa from the University of Chicago with a Bachelor of Arts degree in Social Service Administration (“SSA”), followed by a Masters of Arts degree in SSA from the University of Chicago. She subsequently obtained her Juris Doctor from Harvard Law School.

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

<u>Member</u>	<u>Term Expires</u>
Clare Muñana, Vice President.....	June 30, 2010
Norman R. Bobins.....	June 30, 2010
Dr. Tariq Butt	June 30, 2011
Alberto A. Carrero, Jr.....	June 30, 2010
Peggy A. Davis.....	June 30, 2011
Roxanne M. Ward	June 30, 2011

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

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

Central Administration

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

Chief Executive Officer.....	Ron Huberman
Chief Education Officer	Barbara Eason-Watkins
Chief Administrative Officer.....	Robert Runcie
Chief Operating Officer.....	Robert Runcie
Acting Chief Financial Officer.....	Christina Herzog
Chief Purchasing Officer.....	Opal L. Walls
General Counsel	Patrick J. Rocks

Ron Huberman is the Chief Executive Officer of the Board. Prior to joining the Board, Mr. Huberman served as President of the Chicago Transit Authority (CTA), the second largest transit agency in the country. At CTA, he instituted a company-wide turnaround plan based on performance management principles. Prior to joining the CTA, Mr. Huberman also served as Chief of Staff for Mayor Richard M. Daley, and Executive Director of the City of Chicago Office of Emergency Management and Communication. Mr. Huberman holds a Bachelor’s degree in English and Psychology from the University of Wisconsin at Madison and a Master’s degree in Business Administration and Social Service Administration from the University of Chicago, where he was both a Paul and Daisy Soros Fellow and an Albert Schweitzer Fellow.

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

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

Robert Runcie is the Chief Administrative Officer and Chief Operating Officer of the Board. Mr. Runcie previously served as the Board's Chief Information Officer. Prior to joining the Board, Mr. Runcie was the president and founder of a Chicago-based management consulting and technology service company specializing in project management and systems of implementation. Mr. Runcie graduated from Harvard and has an MBA from Northwestern University's Kellogg School of Management. He is also a member of the current class of the Broad Superintendents Academy.

Christina Herzog was recently appointed Acting Chief Financial Officer of the Board effective August 30, 2009. Ms. Herzog has served as the Board's Budget and Management Director. She has been with CPS in the Office of Budget and Management since 2004, also serving as Senior Manager for Schools and Instructional Programs, Manager for the School Support Unit, and Deputy Budget Director. Prior to joining the Board, Ms. Herzog worked at both KPMG and Deloitte & Touche. Ms. Herzog graduated from the University of Illinois at Champaign-Urbana with a degree in Business Management and Organizational Administration and holds a master's degree from the University of Chicago's Irving B. Harris School for Public Policy.

Opal L. Walls is the Chief Purchasing Officer of the Board. Ms. Walls previously served as the Board's Deputy Purchasing Officer and Director of Finance and Administration for the Department of Procurement and Contracts. Ms. Walls also served in the capacity of Project Manager for the Controller's Office. Prior to joining the Board, Ms. Walls worked for Allstate Insurance Company in Northbrook, Illinois and served in the capacity of Benefits Consultant, Pension Analyst and Senior Portfolio Manager. Ms. Walls holds a Bachelor of Science degree in Business Administration from Elmhurst College of Illinois.

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

School System

The Chicago Public School system consists of 666 attendance centers consisting of 483 elementary schools, 116 high schools and 67 charter schools serving 407,955 children.

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

School Year	Elementary School	High School	Combined
2008/2009	294,789	113,166	407,955
2007/2008	296,060	112,541	408,601
2006/2007	301,122	112,572	413,694
2005/2006	308,993	111,989	420,982
2004/2005	320,719	106,093	426,812

Capital Improvement Program

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

1. New construction, including new schools, additions, annexes and modular units;
2. Building renovation, including new windows, new roofs, masonry, science labs, gymnasiums, Americans with Disabilities Act improvements, energy efficiencies and information technology, including wiring and equipment to connect all Chicago Public Schools facilities to an area wide network; and
3. Educational enhancements, including new campus parks and play lots.

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

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

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

Summary of Work Performed and Expenditures. Since the inception of the Capital Improvement Program, over 1,485 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,085 additional students. These new classrooms are distributed throughout 31 new schools, 15 replacement schools, 42 additions and 28 annexes. Additionally, 2,479 renovations have been completed to date, including new roofs at 458 schools, new windows for 418 schools, and masonry work for 382 schools. Over 779 local area network projects have been completed. The Board anticipates undertaking a similar number of renovation projects and installing local area networks in its remaining schools in the coming years. Finally, approximately

342 play lots and 27 gymnasiums have been renovated to provide students with safe facilities for play and sports.

To finance the Capital Improvement Program, the Board has issued approximately \$4.9 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of October 31, 2009, approximately \$4.4 billion of the proceeds of such Bonds has been spent, and substantially all of the net proceeds remaining have been “encumbered” (i.e., obligated for future expenditure on identified projects).

Future Financings. The Board may issue additional bonds to continue implementation of the Capital Improvement Program. The Board expects to issue additional bonds up to the remaining amount authorized pursuant to the Resolutions before December 31, 2009. Further, consistent with applicable provisions of State law, the Board has the authority to adopt additional authorizing resolution(s) under which some of these bonds may be issued.

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

Educational Reform Initiatives

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

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

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

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

Community Schools. Several CPS schools operate year-round and are open long hours to provide for the needs of the students before, during and after traditional school days. CPS’ vision

encompasses a comprehensive, coordinated and collaborative delivery of services jointly created and operated by the school, community organizations and parents as equal partners based on each school's needs. Programs currently offered include tutoring, art, sports and other enrichment activities designed to build on skills, talents and interests developed as part of the regular curriculum. By collaborating with community-based organizations already funded to provide social and health services to our students, schools can directly address the needs of children by providing services onsite.

Educational Results. There continue to be many positive educational trends at CPS. The 2009 results from the Illinois Standards Achievement Test show that 67.8% of students are meeting or exceeding state standards in reading, while 72.1% are meeting or exceeding state standards in math. Overall, the composite scores are up 38.3% since 2001. Additionally, in high schools, the dropout rate has declined, the graduation rate has continued to grow, average ACT scores have increased, and more students are taking advanced placement classes than ever before.

Renaissance 2010 Program. Renaissance 2010 is a plan, announced by Mayor Daley, to improve the educational choices and opportunities for students throughout Chicago. Under the plan, at least 100 new schools will be created by the year 2010 which will be a combination of CPS-run, contract and charter schools. These new schools will help to address the under-utilization of CPS buildings, lack of high school options, over-crowding and low performance. Renaissance 2010 is an overarching plan that consists of multiple strategies. One strategy is to focus on geographic concentrations of under-utilized buildings and/or low performing schools with a comprehensive approach to meeting the needs of that geography and its neighborhoods. Selection of schools will be heavily informed by the community who will evaluate proposals and make recommendations to the Board. All schools will be accountable via Performance Agreements that outline expectations for student achievement, on-going community and parent involvement and school management.

Modern Schools Across Chicago. Modern Schools Across Chicago is a plan, announced by Mayor Daley, to build 24 new schools and renovate three others across the city over the next six years. The \$1 billion plan will be funded primarily through city tax incremental financing dollars, pending aldermanic support and CPS bond funds. It will bring nine new high schools, fifteen new elementary schools and three high school renovations to neighborhoods across the City. The Modern Schools Across Chicago plan will bring state of the art facilities to all parts of the City, which is the next step in CPS' ongoing effort to give children the same opportunity for a good neighborhood education, regardless of where they live. Five new schools and three school renovations are projected to be completed within the next three years. The remainder of the schools will be constructed over the following three years.

Chicago Teachers' Union and Other Employee Groups

For its 2009 fiscal year, the Board employed approximately 47,000 persons. Approximately 90% of the Board's employees are represented by seven unions that engage in collective bargaining with the Board. As of June 1, 2009 approximately 74% of the Board's employees were represented by the Chicago Teachers' Union (the "CTU") and approximately 16% were represented by six other unions.

The Board's collective bargaining agreements with the seven labor organizations that represent Board employees are effective from July 1, 2007 to June 30, 2012. Each agreement provides for a 4% increase to the employees' salary schedules in each year of the agreement and a freeze on increases to employee health care contributions from January 1, 2008 to December 31, 2010.

Issues addressed in all collective bargaining agreements with the Board include various working conditions, grievance procedures and employee benefits. The Board is seeking to maintain methods of

alternative dispute resolution to reduce the number of union grievances and overall labor litigation including, but not limited to: a voluntary grievance mediation program, a labor management committee and a class size monitoring committee designed to resolve class size complaints successfully divert numerous matters away from litigation each year.

For a discussion of pension and retirement benefits for eligible employees, see”– **Employee Pension Obligations**” below under this caption.

Overview of Board’s Fiscal Year 2010 Budget and Recent Financial Information Concerning the Board

For fiscal years 1996 through 2008, the Board adopted and achieved a balanced budget. The Board also adopted a balanced budget for fiscal year 2009 that reflected General Operating Fund appropriations of \$5.328 billion, of which \$106.4 million was derived from available fund balances. The most recent audited financial statements are for the fiscal year ended June 30, 2008, and are included as **APPENDIX A**.

On August 26, 2009 the Board adopted its fiscal 2010 budget which can be found on the Board’s website: http://www.cps.edu/About_CPS/Financial_information. The appropriation for the fiscal year 2010 operating budget totals more than \$5.3 billion, the debt service budget totals more than \$499 million, and the Capital Projects budget totals more than \$1.03 billion.

The fiscal year 2010 budget reflects multiple fiscal challenges including a Federal and State economic recession, increased unemployment, uncertainty regarding the State’s fiscal situation, and delays and reductions in State funding of the Board.

To address these challenges, the Board’s fiscal year 2010 budget reflects significant budget cuts, an increase in property taxes, several short term funding sources that may not be available in subsequent fiscal years including federal stimulus funds, certain federal aid programs, use of prior-year fund balances, and a one-time acceleration of property taxes as a result of a change in State law. The Board is developing a plan to reduce its fiscal year 2010 planned expenditures by \$61 million to eliminate the need to draw down prior-year fund balances.

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General Operating Fund Balances

As of June 30, 2009, the Board had an estimated fund balance of \$527 million, of which \$215.5 million is expected to be reserved for encumbrances and other specific purposes. The remaining unreserved balance is expected to be \$311.4 million, \$181.2 million of which is expected to be designated to provide operating capital for future years. The fiscal year 2010 budget re-appropriates \$61.0 million out of \$311.4 million of estimated unreserved fund balance to balance the General Fund. The Board plans to eliminate the necessity for the re-appropriation by reducing planned expenditures. In addition, \$45.6 million out of \$104.8 million expected to be reserved for specific purposes is re-appropriated for the Supplemental General State Aid Fund.

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

	Actual (as of June 30)					Budget 2010
	2005	2006	2007	2008	2009 ⁽²⁾	
Revenues:						
Property Taxes	\$1,587,803	\$1,666,118	\$1,716,516	\$1,763,282	\$1,867,350	\$2,065,100
Replacement Taxes	94,546	131,639	147,403	159,805	132,819	105,800
State Aid	1,417,423	1,492,361	1,549,493	1,692,351	1,333,182	1,468,300
Federal Aid	746,403	757,731	711,963	832,526	1,122,805	1,470,500
Investment Income	14,003	36,874	61,595	40,905	21,405	5,600
Other	85,377	101,129	95,534	96,816	102,107	106,142
Total Revenues	<u>\$3,945,555</u>	<u>\$4,185,852</u>	<u>\$4,282,504</u>	<u>\$4,585,685</u>	<u>\$4,579,668</u>	<u>\$5,221,442</u>
Expenditures						
Instruction	\$2,429,014	\$2,538,909	\$2,491,653	\$2,575,124	2,773,439	3,153,435
Pupil Services	323,225	333,968	349,324	362,325	390,399	407,184
Support Services	821,583	893,041	916,334	986,905	1,057,672	1,112,725
Food Services	173,872	172,774	179,902	181,778	194,603	230,155
Community Services	42,325	46,179	45,467	45,708	56,003	54,993
Teachers' Pension	65,045	75,398	155,563	206,651	237,011	338,305
Other	7,332	24,824	8,126	36,194	33,651	31,075
Total Expenditures	<u>\$3,862,396</u>	<u>\$4,085,093</u>	<u>\$4,146,369</u>	<u>\$4,394,685</u>	<u>\$4,742,778</u>	<u>\$5,327,872</u>
Revenues in Excess of (less than)						
Expenditures	\$ 83,159	\$ 100,759	\$ 136,135	\$ 191,000	\$ (163,110)	\$ (106,430)
Other Financing Sources	328	4,145	1,904	3,813	20,389	-
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	\$ 83,487	\$ 104,904	\$ 138,039	\$ 194,813	\$ (142,721)	\$ (106,430)
Fund Balance, Beginning of Period as restated⁽³⁾	<u>307,506</u>	<u>390,993</u>	<u>495,897</u>	<u>474,783</u>	<u>669,596</u>	<u>526,875</u>
Fund Balance, End of Period⁽³⁾	\$ 390,993	\$ 495,897	\$ 633,936	\$ 669,596	\$ 526,875	\$ 420,445
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	\$ 97,313	\$ 102,286	\$ 97,731	\$ 132,684	\$ 110,685	\$ 110,685
Specific Purposes	45,134	85,891	131,362	104,521	104,767	59,167
Total Reserved Fund Balance	<u>\$ 142,447</u>	<u>\$ 188,177</u>	<u>\$ 229,093</u>	<u>\$ 237,205</u>	<u>\$ 215,452</u>	<u>\$ 169,852</u>
Unreserved:						
Designated to Provide Operating Capital	\$ 190,000	\$ 218,400	\$ 233,200	\$ 258,000	\$ 181,200	\$ 181,170
Undesignated	58,546	89,320	171,643	174,391	130,223	69,423
Total Unreserved	<u>\$ 248,546</u>	<u>\$ 307,720</u>	<u>\$ 404,843</u>	<u>\$ 432,391</u>	<u>\$ 311,423</u>	<u>\$ 250,593</u>
Total Fund Balance	\$ 390,993	\$ 495,897	\$ 633,936	\$ 669,596	\$ 526,875	\$ 420,445

(1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Government Funds.

(2) Unaudited.

(3) Fund balances for the years ended June 30, 2006 and June 30, 2007 have been retrospectively adjusted to reflect the change in the recognized accrual period for certain revenues from 90 to 30 days. See "APPENDIX A – Audited Financial Statements for Fiscal Year 2008," Note 16 in the Financial Section, "Change in Accounting Method."

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately \$4.8 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also includes approximately \$386 million aggregate principal amount of leases with the Public Building Commission (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS – Other Public Bodies – The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

Board's Overlapping Debt Schedule

as of December 2, 2009

(Dollars in Thousands)

	Amount		
Direct Debt			
The Bonds			\$ 254,240
Total Prior Bonds			4,665,419
Leases Securing PBC Bonds (principal component)			<u>375,590</u>
Total Direct Debt			<u>\$5,295,249</u>
		Percent	Amount
	Amount	Applicable	Applicable
Overlapping Debt ⁽¹⁾			
City	\$6,546,594	100%	\$ 6,546,594
Chicago Park District ⁽²⁾	814,290	100%	814,290
Water Reclamation District	2,115,928	47.61%	1,007,393
Cook County	3,080,770	46.63%	1,436,563
Forest Preserve District	111,375	46.63%	<u>51,934</u>
Total Overlapping Debt			<u>\$ 9,856,774</u>
Total Direct and Overlapping Debt			<u>\$15,152,023</u>
Selected Debt Statistics			
Population (2007)			2,896,016 ⁽⁴⁾
Equalized Assessed Valuation (2008) ⁽³⁾			80,983,836 ⁽⁵⁾
Estimated Fair Market Value (2007)			320,503,503 ⁽⁶⁾
	Per Capita⁽⁷⁾	% EAV	% FMV
Direct Debt	\$1,828	6.54%	1.652%
Total Direct and Overlapping Debt	<u>\$5,232</u>	<u>18.71%</u>	<u>4.728%</u>

(1) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the Chicago Park District in the amount of \$19,205,000.

(2) Includes \$499,975,000 of outstanding general obligation bonds issued as Alternate Bonds under the Debt Reform Act for which the alternate revenue source is personal property replacement tax revenues and harbor facility revenues.

(3) Real property located in Cook County only.

(4) Source: United States Census Bureau.

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

(6) Source: The Civic Federation.

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

Board's Debt Service Schedule
As of December 2, 2009⁽¹⁾

Calendar Year	Prior Bonds ⁽²⁾	PBC Leases	The Bonds	Total Annual Debt Service
2009	\$ 315,491,153	\$ 52,103,825		\$ 367,594,978
2010	348,508,025	52,163,338	\$ 5,270,466	405,941,829
2011	358,931,912	52,232,025	17,000,000	428,163,937
2012	346,825,776	52,318,625	18,687,929	417,832,330
2013	367,610,849	52,359,513	18,687,929	438,658,291
2014	356,903,462	52,430,550	18,687,929	428,021,941
2015	367,711,311	52,467,613	18,687,929	438,866,853
2016	358,898,926	52,519,550	18,687,929	430,106,405
2017	363,336,645	52,600,125	18,687,929	434,624,699
2018	359,187,435	52,664,600	18,687,929	430,539,964
2019	383,228,445	30,635,500	18,687,929	432,551,874
2020	412,570,543	--	18,687,929	431,258,472
2021	419,994,331	--	18,687,929	438,682,260
2022	414,525,422	--	18,687,929	433,213,351
2023	399,648,681	--	18,687,929	418,336,610
2024	407,252,877	--	18,687,929	425,940,806
2025	421,241,225	--	60,188,942	481,430,167
2026	420,610,379	--	--	420,610,379
2027	415,986,531	--	--	415,986,531
2028	418,304,913	--	--	418,304,913
2029	413,441,054	--	--	413,441,054
2030	398,358,202	--	--	398,358,202
2031	397,416,305	--	--	397,416,305
2032	157,277,326	--	--	157,277,326
2033	116,161,602	--	--	116,161,602
2034	115,453,253	--	--	115,453,253
2035	99,655,697	--	--	99,655,697
2036	85,851,043	--	--	85,851,043
2037	43,779,276	--	--	43,779,276
2038	43,024,481	--	--	43,024,481
2039	<u>42,237,617</u>	<u>--</u>	<u>--</u>	<u>42,237,617</u>
Total ⁽³⁾	\$9,569,424,695	\$554,495,264	\$325,402,485	\$10,449,322,446

- (1) Debt service payments include principal and interest due to and including the following January 1.
- (2) Interest on variable rate bonds is calculated at assumed rates of between 4.5% and 6% per annum, although actual rates may vary. Interest on Bonds that are the subject of an interest rate swap is calculated at the applicable swap rate. See “ – Board's Interest Rate Swap Agreements” below.
- (3) Totals may not add due to rounding.

Legal Debt Margin Information of the Board

Last Five Available Fiscal Years

(Dollars in Thousands)

As of June 30

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assessed Value	\$53,175,365	\$55,283,639	\$59,310,826	\$69,517,264	\$73,651,158
Debt Limit	7,338,200	7,629,142	8,184,894	9,593,382	10,163,860
General Obligation	917,855	764,761	711,982	658,947	606,009
Less: Amount set aside for repayment of bonds	(36,226)	(38,913)	(39,984)	(37,322)	(36,238)
Total Net Debt applicable to Debt Limit ⁽¹⁾	<u>881,629</u>	<u>725,848</u>	<u>671,998</u>	<u>621,625</u>	<u>569,771</u>
Legal debt margin	<u>\$6,456,571</u>	<u>\$6,903,294</u>	<u>\$7,512,896</u>	<u>\$8,971,758</u>	<u>\$9,594,089</u>
Total net debt applicable to the limit as a percentage of Debt Limit	12.01%	9.51%	8.21%	6.48%	5.61%

(1) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect Alternate Bonds because such bonds do not count against the debt limit unless the tax levy supporting them is extended for collection.

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Board's Interest Rate Swap Agreements

The Indenture permits the Board to enter into one or more interest rate swap agreements with respect to the Bonds. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds.

Information regarding the Board's existing interest rate swap agreements (the "Existing Swap Agreements") is set forth in the following table.

Series	Counterparty	Rating of Counterparty (Moody's/Standard & Poor's) ⁽¹⁾	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2000C	Royal Bank of Canada	Aaa/AA-	3/1/2007	\$61,100,000	3/1/2032	3.823%	70% of LIBOR
2004C	Royal Bank of Canada	Aaa/AA-	3/1/2007	\$48,910,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC ⁽²⁾	Aa1/A+	11/1/2005	\$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch Capital Services, Inc	A2/A	11/1/2005	\$77,434,000	12/1/2031	BMA Index	80.76% Straight Ratio
2005D-2	Loop Financial Products I LLC ⁽²⁾	Aa1/A+	12/8/2005	\$157,055,000	3/1/2036	3.6617%	70% of LIBOR
2008A	Royal Bank of Canada	Aaa/AA-	5/13/2008	\$162,785,000	12/1/2028	5.25%	70% of LIBOR + 28 bp
	Bank of America NA	Aa3/A+	5/13/2008	\$100,000,000	12/2/2030	5.25%	70% of LIBOR + 28 bp
2008B	Lehman Brothers Special Financing Inc ⁽³⁾	NR	5/13/2008	\$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs Bank USA	Aa3/NR	5/13/2008	\$90,000,000	3/1/2034	3.771%	70% of LIBOR
2009A	Loop Financial Products I LLC ⁽²⁾	Aa1/A+	3/10/2009	\$130,000,000	3/1/2026	3.6617%	70% of LIBOR
2009B	Royal Bank of Canada	Aaa/AA-	6/25/2009	\$75,410,000	3/1/2035	3.825%	70% of LIBOR

⁽¹⁾ As of November 19, 2009.

⁽²⁾ Loop Financial Products I LLC is provided credit support by Deutsche Bank AG.

⁽³⁾ See **Appendix A – "Audited Financial Statements for Fiscal Year 2008"** – Note 17 – "Subsequent Events – Unlimited Tax General Obligation Bonds (Series 1996, 1999A, 2008B)" for an explanation of the status of the counterparty. Due to the fact that the counterparty has filed for protection under the U.S. Bankruptcy Code, payments under the swap agreement are not being made.

The Existing Swap Agreements expose the Board to certain risks. Should the market value of the swaps become positive, the Board may be exposed to the credit risk of the swap providers. If a swap provider's credit rating declines below specified rating levels and the market value of the swap reaches certain threshold amounts, the Existing Swap Agreements provide that the market value of the swap will be collateralized by the swap provider with U.S. government securities. Collateral would be posted with a third-party custodian.

The Board will be exposed to "basis risk" should the rate paid on the bonds subject to an Existing Swap Agreement exceed the rate payable to the Board pursuant to the related Existing Swap Agreements. Should any adverse basis differential occur while an Existing Swap Agreement is in effect, the rate paid

on the bonds that are subject to the Existing Swap Agreement will be higher than the expected fixed rate, and therefore the expected interest cost to the Board may be higher.

The Board is also exposed to the risk of the bankruptcy of a counterparty. In such an event, payments under the swap agreement may cease to be made to the Board and any payment exchanges between the Board and the bankrupt counterparty may be subject to the jurisdiction of the bankruptcy court.

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

Employee Pension Obligations

Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "**Pension Fund**"). See **APPENDIX A – "Audited Financial Statements for Fiscal Year 2008"** – Note (12). The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers' Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (the "**Funded Ratio**") to equal 90% by fiscal year 2045. As of June 30, 2008, the end of the last fiscal year of the Pension Fund for which audited financial information is available, the Funded Ratio for the Pension Fund was 79.7%.

The 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998: (i) eliminated the Board's obligation to make any local employer pension contribution unless the Funded Ratio of the Pension Fund would otherwise fall below 90%; and (ii) made additional changes to the Board's obligation to fund pension benefits. Based on the current Funded Ratio for the Pension Fund, the Board contributed \$131.5 million to the Pension Fund in fiscal year 2008 and \$188.2 million in fiscal year 2009, and the Board expects to contribute \$317 million to the Pension Fund by the end of fiscal year 2010. For further information see "**BOARD OF EDUCATION OF THE CITY OF CHICAGO --Overview of Board's Fiscal Year 2010 Budget and Recent Financial Information Concerning the Board.**"

Other Post-Employment Benefits

Eligible teacher and administrator retirees of the Board are provided healthcare benefits under a plan administered and funded by the Pension Fund (the "**Health Insurance Program**"). Current State law limits the amount that the Pension Fund may contribute to the Health Insurance Program to \$65,000,000 annually and it also limits payments to reimburse individual plan participants to 70% of actual health care costs. The spending limit has changed six times within the last twenty years and is subject to further change if new legislation is passed.

The Board contributes to the Pension Fund on a pay-as-you-go basis to the extent the Funded Ratio of the Pension Fund fall below 90% (see "**Employee Pension Obligations –Funding of**

Pension Obligations”). Amounts diverted from the Pension Fund to the Health Insurance Program would reduce the Funded Ratio of the Pension Fund.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* (“**GASB 45**”) for retiree healthcare benefits. The Board adopted such standards beginning with its fiscal year 2006 financial statements.

The Board has commissioned actuarial studies which have provided preliminary results for consideration, under several actuarial funding methods and sets of assumptions. Pursuant to such studies, the total actuarial liability, and the annual required contribution, for the Health Insurance Program as of June 30, 2008 has been estimated to be \$2,022,007,643 and \$150,033,000 respectively. This estimate represents the amount of healthcare benefits under the Health Insurance Program, without any assumption as to a limit on the amount the Pension Fund may divert to the Health Insurance Program. If the \$65,000,000 cap were to remain in place as an effective limit, the total actuarial liability and annual required contribution estimates would be substantially reduced.

Debt Management Policy

The Board has adopted a Debt Management Policy (“**Debt Policy**”). The purpose of the Debt Policy is to provide guidance for debt management and capital planning and to enhance the Board’s ability to manage its debt in a conservative and prudent manner. In issuing the Bonds and any future debt, and when entering into derivative contracts, the Board will consider a number of factors, including the duration of the debt in relation to the economic life of the improvement or asset that the issue is financing, its mix of fixed and variable rate debt, negotiated and competitive methods of sale, conditions in both domestic and international markets, credit enhancement agreements, the risks associated with various types of debt and/or derivative instruments, the potential impact of debt service on the operating budget, statutory debt limitations, and credit implications. The Board also believes it should avoid financing general operating costs from debt having maturities greater than one year.

A copy of the Debt Policy is available at the Board’s website <http://policy.cps.k12.il.us/documents/404.1.pdf>. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds.

Investment Policy

The Board has adopted an Investment Policy (the “**Investment Policy**”). The objectives of the Investment Policy are to invest public funds in a manner which is consistent with all state and local statutes governing the investment of public funds and which will provide for the safety of principal, diversification and maximization of the rate of return. The Investment Policy specifically prohibits any purchase of financial futures, any leveraged investment lending securities and any collateralized mortgage obligations. All investments of the moneys on deposit in the Funds and Accounts established under the Indenture are subject to the provisions of the Investment Policy as in effect from time to time.

A copy of the Investment Policy is available at the Board’s website at <http://policy.cps.k12.il.us/documents/403.1.pdf>. The Investment Policy may be subsequently amended or modified by the Board, without notice to or consent of the Owners of the Bonds subject, in all respects, to the provisions of the Public Funds Investment Act of the State of Illinois, as amended.

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

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

Major Units of Government

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

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

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

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

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

The Metropolitan Water Reclamation District of Greater Chicago (the “**Water Reclamation District**”), formerly known as the Metropolitan Sanitary District of Greater Chicago, includes virtually all of the City and most of the County. The Water Reclamation District constructs, maintains and operates

sewage treatment plants and certain sanitary sewers. In addition, the Water Reclamation District constructs and maintains drainage outlets. The Water Reclamation District is governed by a nine-member board elected at-large by the voters of the Water Reclamation District.

Interrelationships of These Bodies

The overlapping governmental taxing bodies described above and the Chicago School Finance Authority, described below, share in varying degrees a common property tax base with the Board. See “**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board’s Overlapping Debt Schedule.**” However each such public body is a separate and distinct governmental unit. The financial condition of any such body does not imply the same condition for the Board.

Other Public Bodies

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

The Public Building Commission of Chicago (the “PBC”) is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental units. The PBC issues bonds to finance its various projects and then leases its facilities to certain governmental units. At present, the Board leases substantially all school buildings and facilities from the PBC. Several other of the major governmental units described above also lease facilities from the PBC. See “**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board’s Overlapping Debt Schedule.**”

The Mayor, also one of the members of the PBC, appoints six of the 10 additional members of the PBC. The presiding officers of the Park District and the Water Reclamation District each appoint one member while the County appoints two members. The PBC is not authorized to levy real property or other taxes, but the public bodies which lease facilities from the PBC, including the Board, levy real property taxes to make the required lease rental payments.

The Chicago Transit Authority (the “CTA”) is a municipal corporation empowered to acquire, construct, own, operate and maintain a transportation system in the City and portions of the County. The CTA is governed by a seven-member board. Four members are appointed by the Mayor with the approval of the City Council, and three members are appointed by the Governor with the approval of the State Senate. The CTA board elects a Chairman from its members who serves for a term of three years. The CTA is funded in part by the RTA sales tax described below and by \$1.50 per \$500 of transfer price on real property sold within the City of Chicago.

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

The Metropolitan Pier and Exposition Authority (the “MPEA”) is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and Navy Pier. MPEA has previously issued revenue bonds to finance its projects. MPEA is governed by a 16-member board, six of whom are appointed by the Governor, with the approval of the State Senate, and six of whom are appointed by the Mayor. The Mayor also appoints, with the approval of the Governor, one additional member who also serves as Chairman of MPEA. The Chief Executive Officer of the MPEA is appointed by the Governor, with the approval of the Mayor. MPEA receives revenue from the operation of its facilities and from the imposition of sales and other consumption-related taxes.

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

Chicago School Finance Authority

Establishment. In 1979 and early 1980, the Board experienced severe financial difficulties. In January 1980, as part of a plan to address these financial difficulties, the Illinois General Assembly established the Chicago School Finance Authority (the “**Authority**”). The Authority is governed by a five-member board of directors: two directors are appointed by the Mayor with the approval of the Governor; two directors are appointed by the Governor with the approval of the Mayor; the Chairman is appointed jointly by the Governor and the Mayor. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The final payment of principal and interest on outstanding bonds issued by the Authority occurred on June 1, 2009.

Financial Oversight and Control Powers. Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise certain financial oversight and control powers with respect to the Board. Effective with the passage of the 1995 Amendatory Act, the Authority’s financial oversight and control powers were suspended until July 1, 1999. The suspension of these oversight and control powers was extended until December 31, 2010, but will become inoperable if the Authority ceases to exist prior to that date (see preceding paragraph).

Debt Obligations. Since 1980, the Authority issued \$1,256,215,000 of its general obligation bonds to provide the Board with moneys for operating purposes, school rehabilitation and school construction purposes, working cash purposes and to refinance short-term debt obligations and to refund outstanding bonds of the Authority. As of the date of this Official Statement, there are no Authority bonds outstanding.

THE REAL PROPERTY TAX SYSTEM

Real Property, Assessment, Tax Levy and Collection Procedures

General. The following is a general summary of the real property assessment, taxing, and collection procedures applicable to the School District and counties in which it is located. As described under “**SECURITY FOR THE BONDS – Pledged Taxes,**” the Pledged Taxes, to the extent they are levied and collected, will be derived from the proceeds of *ad valorem* taxes levied by the Board on all taxable property within the School District.

Substantially all (approximately 99.99%) of the “Equalized Assessed Valuation” (described below) of taxable property in the School District is located in Cook County (the “**County**”). The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption and elsewhere in this Official Statement with respect to taxable property of the

School District does not reflect the portion situated in DuPage County. The Illinois laws relating to real property are contained in the Illinois Property Tax Code, 35 ILCS 200/1-1, et seq., as amended (the “**Property Tax Code**”).

Assessment. The Cook County Assessor (the “**Assessor**”) is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2006 and will be reassessed in 2009. The suburbs in the northern and northwestern portions of the County were reassessed in tax year 2007. The suburbs in the western and southern portions of the County were reassessed in tax year 2008.

Pursuant to the Cook County Real Property Assessment Classification Ordinance (the “**Classification Ordinance**”), real property in the County is separated into various classifications for assessment purposes. After the Assessor establishes the fair cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the “**Assessed Valuation**”) for the parcel. As of the 2009 tax year, the classification percentages range from 10 to 25 percent depending on the type of property (e.g., residential, industrial, commercial) and whether it qualified for certain incentives for reduced rates.

The Cook County Board of Commissioners has adopted various amendments to the County’s Real Property Assessment Classification Ordinance (the “**Classification Ordinance**”), pursuant to which the Assessed Valuation of real property is established. Among other things, these amendments have reduced certain property classification percentages, lengthened certain renewal periods of classifications and created new property classifications.

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by filing a complaint with the Cook County Board of Review (the “**Board of Review**”). The Board of Review consists of three commissioners, each elected by an election district in Cook County. The Board of Review is empowered to review and adjust Assessed Valuations set by the Assessor.

Generally, Board of Review certified assessments are available by June 1 for any given tax year. However, recent delays including a higher percentage of appeals filed before the Board of Review have delayed the certification of assessments to July 30 for the past two years. The Board of Review certified assessments do not account for any further appeals filed before the “PTAB” (hereinafter defined) or the “Circuit Court” (hereinafter defined), of any Certificates of Error that may be issued for such tax year.

Owners of property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the “**PTAB**”), a state-wide administrative body, or to the Circuit Court of Cook County (the “**Circuit Court**”). The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Based on the amount of the proposed change in assessed valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court or the Illinois Appellate Court under the Illinois Administrative Review Law.

In a series of recent PTAB decisions, the PTAB reduced the assessed valuations of certain commercial and industrial property in the County based upon the application of median levels of assessment derived from Illinois Department of Revenue sales-ratio studies instead of utilizing the assessment percentages provided in the Classification Ordinance. On appeal, the Illinois Appellate Court determined that it was improper for the PTAB, on its own initiative, to use the sales-ratio studies when

such studies were not even raised as an issue by the taxpayer before the Board of Review or in its appeal to the PTAB.

The Appellate Court decisions do not preclude a taxpayer in a properly presented case from introducing into evidence sales-ratio studies for the purpose of obtaining an assessment below that which would result from application of the Classification Ordinance. No prediction can be made whether any currently pending or future case would be successful. The Board believes that the impact of any such case on the Board would be minimal, as the Board's ability to levy or collect real property taxes would be unaffected.

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

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

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

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "**Assessment Base**"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See "**- Property Tax Extension Limitation Law; Issuance of Alternate Bonds**" below. For a listing of the Equalization Factors for the ten years ended December 31, 2007, see "**- Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1998-2007.**"

Exemptions. The Illinois Constitution allows homestead exemptions for residential property. Pursuant to the Illinois Property Tax Code, property must be occupied by the owner as a principal residence on January 1 of the tax year for which the exemption will be claimed. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation ("**EAV**") of certain property owned and used exclusively for residential purposes by the amount of the increase over the 1977 EAV, up to a maximum reduction of \$6,000. There is an additional homestead exemption for senior citizens (individuals at least 65 years of age), for whom the Assessor is authorized to reduce the EAV by \$4,000. An additional exemption is available for homes owned and exclusively used for residential purposes by disabled veterans or their spouses, for whom the Assessor is authorized to annually exempt up to \$70,000 of the Assessed Valuation. Another additional exemption authorizing the Assessor to

reduce the EAV by \$5,000 is available for homes owned and exclusively used for residential purposes for veterans who return from an armed conflict involving the armed forces. Although the exemption is for a single tax year, a qualifying veteran can receive the exemption for another tax year in which he or she returns from active duty. The Disabled Persons' Homeowner Exemption provides an annual \$2,000 reduction in the EAV of a qualifying residential property. However, the property cannot receive this exemption and the exemption available for homes owned by disabled veterans or their spouses. An exemption is available for homestead improvements by an owner of a single family residence of up to \$75,000 of the increase in the fair cash value of a home due to certain home improvements to an existing structure for at least four years from the date the improvement is completed and occupied. Senior citizens whose household income is \$55,000 or less, and who are either the owner of record or have a legal or equitable interest in the property, qualify to have the EAV of their property frozen in the year in which they first qualify for the so-called "freeze" and each year thereafter in which the qualifying criteria are maintained.

On July 12, 2004, the Property Tax Code was amended to permit each county in the State, by enacting an ordinance within six (6) months of the effective date of the law, to limit future increases in the taxable value of residential property in such a county to an annual increase of not more than 7% per year. This is known as the Alternative Homestead Exemption. Upon adoption of such an ordinance, homestead property will generally be entitled to an annual homestead exemption equal to the difference between the property's EAV and the property's "adjusted homestead value." The County adopted an ordinance electing to be governed by this law. The exemption provided for under this law cannot exceed \$20,000 in any taxable year. The purpose of the law is to reduce the increase in the taxable value of residential property that otherwise occurs when home values rise rapidly.

In 2007, the Alternative Homestead Exemption law enacted in 2004 was allowed to sunset. Later in 2007, Public Act 95-0644 was enacted, which extends the Alternative Homestead Exemption law for an additional three years, subject to certain provisions and adjustments to the prior law. Pursuant to Public Act 95-0644, the maximum exemption will be \$33,000 in EAV in the first year, decreasing to \$26,000 in the second year, and \$20,000 in EAV in the third or final year. In the County, this increased exemption will be "phased in" over a three-year period: 2006 through 2008 in the City, 2007 through 2009 in the northern and northwestern portions of the County, and 2008 through 2010 in the western and southern portions of the County. Upon the expiration of the extension of the Alternative Homestead Exemption law authorized by Public Act 95-0644, the above-described general homestead exemption will apply.

The Board believes that the primary impact of the Alternative General Homestead Exemption will be to grant some tax relief to residential property owners who experience a large increase in the assessed value of their residences in the applicable years by effectively shifting the tax burden to residential properties that have not had such large increases in assessed valuation and to industrial, commercial and other non-residential properties. At this time, secondary impacts cannot be determined.

Aside from homestead exemptions, upon application, review and approval by the Board of Review, or upon an appeal to the Illinois Department of Revenue, there are exemptions generally available for properties of religious, charitable, and educational organizations, as well as units of federal, state and local governments.

Additionally, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, long-time, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. Pursuant to

Public Act 95-0644, the Long-Time Occupant Homestead Exemption provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption. This is generally applicable to homeowners; (i) who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), (ii) whose annual household income for the year of the homeowner's triennial assessment does not exceed \$100,000. This exemption limits the EAV increases to a specific annual percentage increase that is based on the total household income of \$100,000 or less. Qualifying homestead properties with a total household income of \$75,000 or less is limited to a 7% annual percentage increase in EAV, and qualifying homestead properties with a total household income of more than \$75,000 up to \$100,000 is limited to a 10% annual percentage increase in EAV. The minimum limit is the same amount calculated for the general homestead exemption with no maximum limit amount for the exemption. However, properties cannot receive both the Long-Time Occupant Homestead Exemption and the general homestead exemption, Alternative General Homestead Exemption or Senior Citizens Assessment Freeze Homestead Exemption.

Tax Levy. There are over 800 units of local government (the "Units") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the County include the Board, the City, the Park District, the Authority, the Community College District, the Water Reclamation District, the County and the Forest Preserve District.

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

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

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

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the last 10 years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) has not been later than November 16; and the date for tax year 2007 was November 3, 2008. It is possible that delays in the assessment process or changes to the

assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years.

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

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

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited to the State and are eligible to be purchased "over the counter" at any time thereafter at an amount equal to all delinquent taxes, interest and certain other costs to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale, except that a different penalty rate may apply depending on the length of the redemption period.

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

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

The Limitation Law specifically limits the annual growth in property tax extensions for the Board to the lesser of 5% or the percentage increase in the Consumer Price Index for All Urban Consumers during the calendar year preceding the relevant tax levy year. Generally, extensions can be increased beyond this limitation only due to increases in the Equalized Assessed Valuation attributable to new construction and referendum approval of tax or limitation rate increases.

The Limitation Law requires the Cook County Clerk, in extending taxes for taxing districts in Cook County, including the Board, to use the Equalized Assessed Valuation of all property within the taxing district for the levy year prior to the levy year for which taxes are then being extended.

The Limitation Law (i) authorizes the issuance of “limited bonds” payable from non-home rule taxing districts’ “debt service extension base”; and (ii) excludes certain types of general obligation bonds, known as “alternate bonds” issued pursuant to Section 15 of the Debt Reform Act, from the direct referendum requirements of the Limitation Law. Pursuant to the provisions of this amendatory legislation and the Debt Reform Act, the Bonds are being issued as Alternate Bonds. The extension and collection of the Pledged Taxes, to the extent received, for the payment of debt service on the Bonds are not limited or restricted in any way by the provisions of the Limitation Law.

Illinois Truth in Taxation Law

The Illinois Truth in Taxation Law imposes procedural limitations on a Unit’s real estate taxing powers and requires that notice in the prescribed form must be published if the aggregate annual levy is estimated to exceed 105% of the levy of the preceding year, exclusive of levies for debt service, election cost and payments due under public building commission leases. A public hearing must also be held, which may not be in conjunction with the budget hearing of the Unit on the adoption of the Unit’s annual levy. No amount in excess of 105% of the preceding year’s levy may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by a certification of compliance with the foregoing procedures. This law does not impose any limitations on the rate or the amount of the levy to pay principal of and interest on the Unit’s general obligation bonds and notes.

Bond Issue Notification Act

The Bond Issue Notification Act (the “**Bond Issue Notification Act**”) requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony. On August 27, 2008, a hearing pursuant to the Bond Issue Notification Act was held in connection with bonds to be issued pursuant to the 2008 Authorization, including the Bonds.

Property Tax Information

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

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Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1999-2008
(Dollars in Thousands)

Tax Year Levy ⁽⁹⁾	Assessed Values ⁽¹⁾					State Equalization Factor ⁽²⁾	Total Equalized Assessed Value ⁽³⁾	Total Estimated Fair Cash Value ⁽⁴⁾	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
	Class 2 ⁽⁵⁾	Class 3 ⁽⁶⁾	Class 5 ⁽⁷⁾	Other ⁽⁸⁾	Total				
2008	\$19,339,573	\$1,602,768	\$12,359,537	\$693,239	\$33,995,117	2.9786	\$80,977,543	N/A	N/A
2007	18,937,256	1,768,927	12,239,086	678,196	33,623,465	2.8439	73,645,316	\$ 320,503,503	22.98%
2006	18,521,873	2,006,898	12,157,199	688,818	33,374,788	2.7076	69,511,192	329,770,733	21.08
2005	13,420,538	1,842,613	10,502,698	462,099	26,227,948	2.7320	59,304,530	283,137,884	20.95
2004	12,998,216	1,883,047	10,401,428	465,464	25,748,155	2.5757	55,283,639	262,080,627	21.09
2003	12,677,199	2,233,572	10,303,731	487,680	25,702,182	2.4598	53,168,632	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39

(1) Source: Cook County Assessor's Office.

(2) Source: Illinois Department of Revenue.

(3) Source: Cook County Clerk's Office. Calculations are net of exemptions and include assessment of pollution control facilities. Excludes DuPage County Valuation.

(4) Source: The Civic Federation. Excludes railroad property.

(5) Residential, six units and under.

(6) Residential, seven units and over and mixed-use.

(7) Industrial/Commercial.

(8) Vacant, not-for-profit and industrial/commercial incentive classes.

(9) Triennial updates of assessed valuation occurred in years 2000, 2003 and 2006.

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

Levy Year ⁽²⁾	Extension	First Year Collections		Cumulative Collections ⁽¹⁾	
		Amount	Percent	Amount	Percent
2008	\$2,001,751	\$ 931,168	46.5%	\$ 931,168	46.5%
2007	1,901,887	1,809,396	95.1%	1,881,122	98.9%
2006	1,874,750	1,644,937	87.7%	1,833,098	97.8%
2005	1,794,063	1,728,522	96.3%	1,751,792	97.6%
2004	1,716,111	1,565,982	91.3%	1,685,603	98.2%
2003	1,670,337	1,500,238	89.8%	1,624,803	97.3%
2002	1,614,473	1,548,369	95.9%	1,578,837	97.8%
2001	1,571,962	1,519,630	96.7%	1,548,415	98.5%
2000	1,503,488	1,446,847	96.2%	1,467,367	97.6%
1999	1,451,206	1,408,124	97.0%	1,424,715	98.2%

Source: Board of Education of the City of Chicago

(1) Tax receivables is net of Estimated Allowance for Uncollectible taxes (the "Allowance"). The Allowance for the calendar year 2008 levy is 3.5% of the levy.

(2) The 2008 tax extension year reflects collections through October 29, 2009.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tax Rates by Board Fund:										
Educational	\$3.000	\$2.756	\$2.712	\$2.670	\$2.258	\$2.301	\$2.142	\$2.078	\$2.377	\$2.426
School District Medicare ⁽¹⁾	0.048	0.047	0.031	0.017	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.206	0.141	0.191	0.150	0.219	0.131	0.228	0.021	0.190	0.031
PBC Operation and Maintenance ⁽²⁾	0.701	0.640	0.685	0.609	0.565	0.576	0.565	0.521	0.000	0.000
PBC Lease Rentals	<u>0.149</u>	<u>0.130</u>	<u>0.125</u>	<u>0.116</u>	<u>0.100</u>	<u>0.096</u>	<u>0.091</u>	<u>0.077</u>	<u>0.016</u>	<u>0.015</u>
Board Subtotal	<u>\$4.104</u>	<u>\$3.714</u>	<u>\$3.744</u>	<u>\$3.562</u>	<u>\$3.142</u>	<u>\$3.104</u>	<u>\$3.026</u>	<u>\$2.697</u>	<u>\$2.583</u>	<u>2.472</u>
Other Major Government Units:										
City of Chicago	\$1.860	\$1.660	\$1.637	\$1.591	\$1.380	\$1.302	\$1.243	\$1.062	\$1.044	\$1.147
Community College District	0.347	0.311	0.307	0.280	0.246	0.242	0.234	0.205	0.159	0.156
School Finance Authority	0.255	0.223	0.223	0.177	0.151	0.177	0.127	0.118	0.091	0.000
Chicago Park District	0.627	0.572	0.567	0.545	0.464	0.455	0.443	0.379	0.355	0.323
Water Reclamation District	0.419	0.415	0.401	0.371	0.361	0.347	0.315	0.284	0.263	0.252
Cook County	0.854	0.824	0.746	0.690	0.630	0.593	0.533	0.500	0.446	0.415
Cook County Forest Preserve	<u>0.070</u>	<u>0.069</u>	<u>0.067</u>	<u>0.061</u>	<u>0.059</u>	<u>0.060</u>	<u>0.060</u>	<u>0.057</u>	<u>0.053</u>	<u>0.051</u>
Other Unit Subtotal	<u>\$4.432</u>	<u>\$4.074</u>	<u>\$3.948</u>	<u>\$3.715</u>	<u>\$3.291</u>	<u>\$3.176</u>	<u>\$2.955</u>	<u>\$2.605</u>	<u>\$2.411</u>	<u>\$2.344</u>
TOTAL	<u>\$8.536</u>	<u>\$7.788</u>	<u>\$7.692</u>	<u>\$7.277</u>	<u>\$6.433</u>	<u>\$6.280</u>	<u>\$5.981</u>	<u>\$5.302</u>	<u>\$4.994</u>	<u>\$4.816</u>

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

(1) Beginning fiscal year 2004, the tax levy for Medicare has been consolidated with the Education tax rate.

(2) Beginning fiscal year 2007, the tax levy for PBC Operations & Maintenance has been consolidated with the Education tax rate.

TAX MATTERS

Federal Tax Credits

The following discussion of Federal Tax Credits was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Tax Opinion. In the opinion of Katten Muchin Rosenman LLP, Bond Counsel, under existing law, the Bonds are "qualified school construction bonds" within the meaning of Section 54F of the Code, and if a taxpayer holds a Bond on one or more "credit allowance dates" (as defined in Section 54A(e)(1) of the Code) occurring during any taxable year, there will be allowed as a credit against the federal income tax imposed on such taxpayer for the taxable year an amount equal to the sum of the credits determined under Section 54A of the Code with respect to such dates. If there is continuing compliance with the requirements of the Code, Bond Counsel is of the opinion that the Bonds will continue to be qualified school construction bonds. Failure to comply with such requirements could result in the loss to the owners of the Bonds of the tax credit provided under Section 54A of the Code with respect to the Bonds. Interest and tax credits on the Bonds are not exempt from federal income taxation. Interest on the Bonds is not exempt from Illinois income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The Code imposes various restrictions, conditions and requirements relating to the qualification of the Bonds as qualified school construction bonds. In rendering the above-described opinion that the Bonds are qualified school construction bonds, Bond Counsel has relied upon certifications and representations of the Board (i) with respect to certain material facts solely within the knowledge of Board without undertaking to verify the same by independent investigation, and (ii) that the Board has taken actions necessary for the Bonds to be qualified school construction bonds. In addition, Bond Counsel is assuming continuing compliance with the Covenants (as defined below) by the Board, so that the Bonds will continue to be qualified school construction bonds. The Board has covenanted in the Tax Compliance Agreement to comply with the provisions of the Code applicable to the Bonds including, among other things, requirements as to the use, expenditure and investment of the proceeds thereof, the use of the property financed or refinanced thereby, the arbitrage yield restrictions and rebate payment obligations (the "Covenants"). Failure by the Board to comply with the Covenants could cause the Bonds to lose their status as qualified school construction bonds retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent the Bonds from losing their status as qualified school construction bonds. The opinion of Bond Counsel assumes the accuracy of these certifications and representations and compliance with these Covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the availability of the Tax Credit with respect to, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that the Bonds are qualified school construction bonds within the meaning of Section 54F of the Code, the Beneficial Ownership or disposition of, or the accrual or receipt of the Tax Credit with respect to, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. The legal authorities setting forth and interpreting Sections 54A and 54F of the Code are new and, in many areas, incomplete. The opinion of Bond Counsel is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Board, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Board has covenanted, however, to comply with the requirements of the Code.

Under regulations prescribed by the Secretary of the Treasury (the "**Regulations**"), there may be a separation of the Beneficial Ownership of all or any portion of a Bond and the entitlement to the related tax credit, subject to the limitations of Section 54A of the Code. No such regulations have yet been issued and until they are promulgated, there is no assurance that the Beneficial Owner of any Bond may successfully assign the related tax credits by converting the Bond into a Principal Strip Certificate and Tax Credit Certificate and selling one or the other. The Board and Bond Counsel express no opinion as to, and accept no liability regarding, the utility of Tax Credits for any particular Owner or subsequent purchaser of a Principal Strip Certificate or a Tax Credit Certificate, and prospective purchasers of Principal Strip Certificates or Tax Credit Certificates should consult with their own tax advisors concerning the purchase. Future legislative proposals, if enacted into law, clarification of the Code or court decisions may prevent Beneficial Owners of the Bonds and the Tax Credit Certificates from realizing the full current benefit of the tax status of the Bonds. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds, the Tax Credit Certificates or the Principal Strip Certificates. Prospective purchasers of the Bonds, the Tax Credit Certificates or the Principal Strip Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the Beneficial Owners regarding the tax status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Board and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of Bonds is difficult, obtaining an independent review of IRS positions with which the Board legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, the Tax Credit Certificates or the Principal Strip Certificates, and may cause the Board or the Beneficial Owners to incur significant expense.

Amount of Tax Credit. The amount of the Tax Credit with respect to a Bond is equal to the product of the published credit rate for the date on which the Bond is sold (5.75%), times the outstanding principal amount of the Bond on the relevant Tax Credit Allowance Date, divided by four. The Tax Credit Allowance Dates are March 15, June 15, September 15, and December 15. The Tax Credit allowed for the first Tax Credit Allowance Date of March 15, 2010, is the ratable portion of the tax credit otherwise allowed on such date based on an initial issuance date of December 17, 2009 (as opposed to the full credit period starting December 15, 2009). If a Bond is redeemed or matures on a date other than March 15, June 15, September 15, or December 15, the redemption or maturity date will be a Tax Credit Allowance Date and the amount of the associated Tax Credit will be a ratable portion of the tax credit otherwise allowed based on the earlier Tax Credit Allowance Date. After issuance of the Regulations, it is expected that Beneficial Owners of Tax Credit Certificates, whether held as Tax Credit Certificates or as part of the Bonds, as of the applicable Tax Credit Allowance Date will receive the Tax Credit.

Limitation on Tax Credit. The Tax Credit allowed may not exceed the sum of the taxpayer's regular tax liability and alternative minimum tax liability under Section 55 of the Code less, in general, the taxpayer's other tax credits (except refundable tax credits set forth in subparts C (Sections 31-37) and J (Section 54A) of part IV of subchapter A of the Code). The Tax Credit is not considered a passive activity credit under Code Section 469(d), and therefore, such credit is not subject to the limitations with respect to passive activity credits.

Carryover of Unused Tax Credit Amount. If a Beneficial Owner of a Bond cannot use all of the Tax Credit otherwise allocable for the taxable year, such Beneficial Owner is allowed to carry forward to a subsequent tax year the unused portion of the Tax Credit deemed paid on the relevant Tax Credit Allowance Date. Similar treatment is expected for the Beneficial Owners of Tax Credit Certificates under the Regulations.

Tax Credit Amount Included in Income as Deemed Interest. Section 54A of the Code requires the Beneficial Owners of Bonds to include the amount of the Tax Credit (determined without reference to the limitation described above under "**Limitation on Tax Credit**") in gross income. It is expected that Treasury Regulations will provide that such amount must be treated as if it were a payment of "qualified stated interest" on each Tax Credit Allowance Date. Unless subject to the stripping rules described in "**TAX MATTERS-General Tax Matters**", a Beneficial Owner using the cash method of accounting would take the deemed interest payment into account on the Tax Credit Allowance Date, while a Beneficial Owner using the accrual method of accounting would accrue such amount as income over the three month period that ends on the Tax Credit Allowance Date (or a shorter period for a short first or last Tax Credit Allowance Date). If such an accrual method Beneficial Owner of a Bond sells or exchanges such Bond before any given Tax Credit Allowance Date, the Beneficial Owner must accrue such interest income up to the date of the sale or exchange but would not qualify for any of the Tax Credit for such Tax Credit Allowance Date. It would appear that because the subsequent purchaser would obtain the full credit for that Tax Credit Allowance Date, the purchase price would reflect the accrual of the deemed interest amount. It would also appear that the receipt of such amount by the subsequent purchaser primarily would constitute a return of capital (tax basis) and not be subject to additional (i.e., double) taxation to the purchaser. See also "**TAX MATTERS – General Tax Matters.**"

Tax Credit's Effect on Estimated Income Tax Payments. The credit under Section 54A of the Code may be taken into account by a taxpayer in computing the amount of quarterly estimated tax payments required to be paid by such taxpayer. Individual calendar year taxpayers should note that the March 15 and December 15 credit allowance dates do not correspond to the regular estimated tax payment dates of April 15 and January 15.

State Income Tax Consequences. Illinois law does not provide for any credit against Illinois income tax with respect to qualified school construction bonds, while interest income deemed earned on the Bonds is includible in income for Illinois taxpayers. All persons are urged to consult their own tax advisors to determine any other state or local tax consequences of making an investment in the Bonds.

General Tax Matters

The following discussion was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

This section summarizes certain material federal income tax consequences relating to an investment in the Bonds, Tax Credit Certificates or Principal Strip Certificates. The summary only

addresses such consequences to initial purchasers of the Bonds, Tax Credit Certificates or Principal Strip Certificates, and is based upon the current provisions of the Code, its legislative history, treasury regulations, administrative pronouncements and judicial decisions, all of which are subject to change, possibly with retroactive effect. This summary deals only with Bonds, Tax Credit Certificates or Principal Strip Certificates, held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences of Beneficial Owners of Bonds, Tax Credit Certificates or Principal Strip Certificates, that may be relevant to investors in special tax situations (such as financial institutions, taxpayers subject to the alternative minimum tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities that elect to mark to market, or Bonds, Tax Credit Certificates or Principal Strip Certificates, held as a hedge or as part of a hedging, straddle, constructive sale or conversion transaction). This summary does not purport to be a complete discussion of all federal income tax consequences relating to making an investment in the Bonds, Tax Credit Certificates or Principal Strip Certificates. The discussion herein concerning certain tax consequences with respect to an investment in the Bonds, Tax Credit Certificates or Principal Strip Certificates is included for general information only, and with respect to the Tax Credit Certificates or Principal Strip Certificates is subject to issuance of the Stripping Regulations. All persons are urged to consult their own tax advisors to determine the specific tax consequences of making an investment in the Bonds, Tax Credit Certificates or Principal Strip Certificates, including any state, local or non-US. tax consequences.

Tax Status of the Bonds. The Bonds will be treated, for federal income tax purposes, as debt instruments. Accordingly, amounts treated as interest will be included in the income of the Beneficial Owner as it is paid or deemed to be paid (or, if the Beneficial Owner is an accrual method taxpayer, as it is accrued) as interest.

Premium and Market Discount Considerations. Beneficial Owners of Bonds that purchased such Bonds at a price greater than the principal amount of the Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a Beneficial Owner acquires a Bond for less than the adjusted issue price of the Bond (the “adjusted issue price” being the initial price of the Bond to the public), then the Beneficial Owner will acquire the Bond with “market discount” as defined under Section 1276 of the Code. If the amount of the market discount is more than a “*de minimis*” amount (an amount equal to 0.0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity from the issue date), then the Beneficial Owner will have to recognize, as ordinary income, its share of any gain realized on the disposition of the Bond, to the extent such market discount has accrued. Similarly, the Beneficial Owners will have to recognize any payment of principal, as ordinary income, to the extent market discount has accrued.

Alternatively, a Beneficial Owner may elect to recognize and include market discount in income currently. Because such an election will affect how the Beneficial Owner treats other securities it should only be made after consulting with a tax advisor. If a Beneficial Owner elects to recognize and include market discount in income currently, the basis of the Beneficial Owner’s interest in the Bond will increase by the amount of market discount recognized. If the market discount rules apply to a Bond but a Beneficial Owner does not elect to accrue and include market discount in income currently, then the Beneficial Owner may have to defer claiming a deduction for any interest expense on indebtedness incurred or continued to purchase or carry the Bond.

Supplemental Coupon. Interest on the Bonds in payment of the Supplemental Coupon will be includible in the gross income of each Beneficial Owner as it is paid (or, if the Beneficial Owner is an accrual method taxpayer, as it is accrued).

Original Issue Discount. For federal income tax purposes, original issue discount (“OID”) is the excess of the stated redemption price at maturity of a Bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally 1/4% of 1% of the Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a Bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such Bond). The issue price of a Bond equals the first price at which a substantial amount of such Bond has been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The stated redemption price at maturity of a Bond is the sum of all payments provided by the Bond at maturity other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. It is expected that Treasury Regulations will provide that the amount of the Tax Credit must be treated as if it were a payment of “qualified stated interest” on each Tax Credit Allowance Date.

Payments (including deemed payments) of qualified stated interest on a Bond are taxable to a Beneficial Owner as ordinary interest income at the time such payments are accrued or are received (in accordance with the Beneficial Owner’s regular method of tax accounting). A Beneficial Owner of an original issue discount Bond must include OID in income as ordinary interest for United States federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such Beneficial Owner’s regular method of tax accounting. Under the OID rules, Beneficial Owners generally will have to include in income increasingly greater amounts of OID in successive accrual periods. A Beneficial Owner’s adjusted basis in a Bond is to be increased by the amount of such accruing OID for purposes of determining taxable gain or loss on the sale or other disposition of a Bond, or a component thereof, for federal income tax purposes. Prospective investors should consult their own tax advisors concerning the calculation of OID with regard to a Bond. Beneficial Owners may generally, upon election, include in income all interest (including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to OID, subject to certain limitations and exceptions.

Tax Treatment of Stripped Bonds.

Reliance on Forthcoming Regulations. Section 54A of the Code allows a Bond to be separated into a Principal Component and Tax Credit Component under regulations to be issued by the Treasury Department. Section 54A also directs that in the case of a separation, (1) the credit allowed under Section 54A of the Code will be allowed to the person who holds the Tax Credit Component on the Tax Credit Allowance Date (and not to the Beneficial Owner of the Principal Component) and (2) the stripping rules of Section 1286 will apply to the Bond as if the Principal Component were a stripped bond and the Tax Credit Component were a stripped coupon. *No regulations have been issued under Section 54A of the Code as of the date of this Official Statement. Accordingly, while the rules under Section 1286 of the Code may be expected to apply as described below, no assurance can be given that the rules in the regulations will agree with such description. Furthermore, regulations or other official guidance under Section 54A of the Code may impose additional requirements and limitations in connection with the separation of the Principal Component and the Tax Credit Component of a Bond.*

For purposes of this subsection, “Strip” means a Principal Component or a Tax Credit Component, and “U.S. Beneficial Owner” means a Beneficial Owner of a Strip that is (i) a citizen or resident of the United States, (ii) a corporation organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is includible in gross income for United

States tax purposes regardless of its source, or (iv) a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) is a Beneficial Owner of a Strip, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Strips and the partners therein should seek advice based on their particular circumstances from independent tax advisors.

Treatment of Stripping a Bond. A U.S. Beneficial Owner that strips a Bond into its Principal Component and Tax Credit Components and disposes of one or more of the components is expected to be treated in the following manner. The U.S. Beneficial Owner will first be required to include in income all the interest and market discount accrued on the Bond up to the date of disposition (to the extent such income had not previously been included in income) and will increase its basis in the Bond by the amount included in income. Upon disposing of one or more Strips, the U.S. Beneficial Owner will then be required to recognize gain or loss equal to the difference between the amount realized on each Strip disposed of and the U.S. Beneficial Owner's basis in the Strip. For purposes of determining its basis in each component (whether or not disposed of), the U.S. Beneficial Owner will be required to allocate its tax basis in the entire Bond (increased, as described above, for interest and market discount) between the Principal Component and Tax Credit Components based on their respective fair market values on the date of the disposition.

No Special Exemption. A U.S. Beneficial Owner is subject to United States federal income taxation on the income of a Strip, and there is no special exemption from United States federal income, estate or gift tax with respect to Strips.

Inclusion in Income as Original Issue Discount. A U.S. Beneficial Owner of a Strip will accrue income on the Strip in accordance with the OID rules as described below. In this regard, the application of the OID rules to the Strips is subject to significant uncertainty, and therefore purchasers of the Strips are urged to consult with their own tax advisors. Generally, however, it is anticipated that each U.S. Beneficial Owner of a Strip will be required to include in income, as OID, the difference between (1) in the case of a Principal Component, its stated redemption price at maturity, and, in the case of a Tax Credit Component, the amount of the Tax Credit and (2) the U.S. Beneficial Owner's purchase price for the Strip (or, in the case of a person who effects a stripping transaction and disposes of one or more of the Strips, the portion of the person's basis in the Bond which was allocated to the retained Strips as described above).

Regardless of a U.S. Beneficial Owner's ordinary method of tax accounting (cash or accrual) the amount of OID on a Strip will generally be includible in the income of the U.S. Beneficial Owner over the life of the Strip on a constant-yield basis. Consequently, the U.S. Beneficial Owner of a Strip will ordinarily be required to report income from a Strip in advance of receiving the principal amount, in the case of a the Principal Component or the benefit of the Tax Credit, in the case of a Tax Credit Component. See, however, the discussion concerning the special rules applicable to "short-term" Strips, below.

Yearly Calculation. The amount of OID that must be included in income each year by the U.S. Beneficial Owner of a Strip will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the U.S. Beneficial Owner owned the Strip. The daily portions will be determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the Strip at the beginning of the accrual period, also as defined

below, multiplied by the yield to maturity of the Strip, determined by compounding at the close of each accrual period and properly adjusting for the length of the accrual period. For purposes of these calculations, (i) the accrual periods may, generally, be of any length and may vary in length over the term of the Strip, provided that each accrual period is no longer than a year and that each scheduled payment of principal and deemed interest occurs either on the final day of an accrual period or on the first day of an accrual period, and (ii) the adjusted issue price of a Strip will be the U.S. Beneficial Owner's purchase price for the Strip (or, in the case of a person who effects a stripping transaction and disposes of one or more of the Strips, the portion of the person's basis in the Bond which is allocable to the retained Strips, as determined pursuant to the rules set forth above), increased by the OID accrued by the U.S. Beneficial Owner in previous accrual periods and decreased by any payments received or deemed received by the U.S. Beneficial Owner in prior accrual periods.

The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable (or deemed payable) at the maturity of the Strip and (y) the Strip's adjusted price as of the beginning of the final accrual period. The foregoing rules will generally be applied to each Strip acquired separately. In certain circumstances, Strips acquired (or retained by the person stripping a Bond) may be treated as a single instrument for tax purposes.

Short Term Strips. Special discount accrual rules apply in the case of Strips having a maturity of one year or less from the date of purchase (or in the case of a person who effects a stripping transaction, Strips having a maturity of one year or less from the date of the stripping transaction). In general, a cash basis U.S. Beneficial Owner who purchases a Strip with a maturity that is one year or less from the date of issuance ("**short-term Strips**") is not required to accrue OID for United States federal income tax purposes unless it elects to do so. Accrual basis U.S. Beneficial Owners and certain other U.S. Beneficial Owners (including certain pass-through entities and electing cash basis U.S. Beneficial Owners) who purchase a short-term Strip, and any U.S. Beneficial Owners who strip a Bond into Principal Components and Tax Credit Components and retain one or more components, are required to accrue the "acquisition discount" on the short-term Strips on either a straight-line basis or under the constant-yield method (based on daily compounding), at the election of the UB; Beneficial Owner; In the case of a RS; Beneficial Owner not required and not electing to include OID on a short-term Strip in income currently, any gain realized on the sale or retirement of the short-term Strip will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Beneficial Owners who are not required and who do not elect to accrue OID on short-term Strips will be required to defer deductions for interest on borrowings allocable to short-term Strips in an amount not exceeding the deferred income until the deferred income is realized.

Sale or Disposition. Upon the sale or exchange of a Strip, a U.S. Beneficial Owner generally will recognize capital gain or loss (except to the extent of accrued and unpaid interest, and subject to the exception applicable to certain short-term Strips, as discussed in the preceding paragraph) in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. Beneficial Owner's adjusted tax basis in the Strip. A U.S. Beneficial Owner's adjusted tax basis in a Strip will generally be its cost, increased by the amount of the OID included in the U.S. Beneficial Owner's income with respect to the Strip.

Recharacterization. The Board is selling the Bonds (and not Strips) to the Underwriter. It is possible, however, that the Underwriter may separate the Beneficial Ownership of some of the Bonds soon after their issuance and sell the Principal Components and the Tax Credit Components resulting from such separation (as well as any remaining Bonds). Such Strips might be viewed, for United States

federal income tax purposes, as OID bonds issued directly by the Board to the purchasers of the Strips. If the IRS were to characterize the transaction in this fashion, the rules set forth above would generally apply to the Bonds stripped by the Underwriter, except that (1) the amount of OID on each Strip so sold would be measured, and the adjusted issue price would be determined, by reference to the first price at which a substantial amount of each Strip was sold, rather than by reference to the price paid by the purchaser for the Strip (not only in the case of an initial purchaser of the Strip, but also in the case of any transferee thereof) and (2) the stated redemption price at maturity of a Strip would be determined by reference to all payments (or deemed payments) to be made on the Strip subsequent to the date of the issuance of the Bonds rather than by reference to the payments to be made subsequent to the post-issuance separation of Beneficial Ownership of a Bond and creation of the Strip. Each U.S. Beneficial Owner is urged to consult with its own tax advisor as to the likelihood of such a characterization, as well as to the application of the “acquisition premium” and “market discount” rules which would apply to those Bonds stripped by the Underwriter if the transaction were to be so characterized.

Tax Basis and Sale of Bond or Component. A Beneficial Owner’s initial tax basis in a Bond, or a component thereof, generally will be equal to the purchase price paid by the Beneficial Owner for such Bond. A Beneficial Owner’s tax basis in the Bond, or a component thereof, will be increased by the amount of original issue discount, if any, that is included in the Beneficial Owner’s income, and decreased by the amount of premium, if any, amortized as a reduction to interest income, pursuant to the foregoing rules.

Upon the sale of a Bond, or a component thereof, for cash, a Beneficial Owner will recognize gain or loss equal to the difference between the amount of cash received (other than cash attributable to accrued interest) and such Beneficial Owner’s adjusted tax basis in the Bond or component. Such gain or loss will be capital gain or loss if the Bond is a capital asset to such Beneficial Owner. Cash received attributable to accrued interest will constitute ordinary interest income to a cash method Beneficial Owner, and a return of capital with respect to interest accrued as income by an accrual method Beneficial Owner.

Conversion of Bonds or Tax Credit Certificates into Interest Bearing Bonds or Cash Interest Certificates. The conversion of Bonds or Tax Credit Certificates into Interest Bearing Bonds or Cash Interest Certificates may result in a deemed reissuance of those securities for federal income tax purposes, meaning that the Bonds or Tax Credit Certificates, as the case may be, may be treated as having been sold or exchanged in a taxable transaction as of the date of the conversion for a new obligation which is represented by the Interest Bearing Bonds or Cash Interest Certificates. Such a reissuance may result in the recognition of taxable gain or loss on the Bonds or Tax Credit Certificates and the recharacterization for federal income tax purposes of principal and interest payments on the Interest Bearing Bonds or Cash Interest Certificates.

Foreign Investors. The amount of Tax Credits that can be used by a Beneficial Owner is limited to the Beneficial Owner’s regular U.S. income and minimum tax liability. All foreign investors are urged to consult their own tax advisors before making an investment in the Bonds, Principal Components and Tax Credit Components.

Principal payments on the Bonds or payments of the Principal Component to a non-U.S. Beneficial Owner that has no connection with the United States other than holding its Bonds or Principal Component, generally will be made free of withholding tax, as long as the Beneficial Owner has complied with certain tax identification and certification requirements. The IRS has not provided guidance regarding how withholding tax will apply to any interest payment or any deemed interest payment on a Bond or deemed payment of a Tax Credit Component. Therefore, it is not clear how or whether such withholding would occur.

U.S. Federal Information Reporting and Withholding Tax Reporting. The Trustee will prepare such tax information returns as may be required by the IRS. To date, the IRS has not issued any rulings or regulations or otherwise provided any guidance with respect to the mechanics of reporting of the Tax Credits as the equivalent of interest income, the reporting of the availability of the Tax Credits to the Beneficial Owners thereof, or the accrual of OID on the Bonds, the Principal Components and the Tax Credit Components. The failure of the Trustee to furnish a tax reporting form to a Beneficial Owner does not necessarily mean that the Beneficial Owner has no taxable income. In addition, any form furnished to a Beneficial Owner may specify an amount of taxable income different from the actual amount of taxable income reportable by such Beneficial Owner if such Beneficial Owner is not the original purchaser of a Bond, the Principal Components and the Tax Credit Components. The Beneficial Owner of a Tax Credit Certificate, whether held as a Tax Credit Certificate or as part of a Bond, must include on its income tax return information with respect to the amount of taxable interest accrued as original issue discount during the taxable year.

Backup Withholding. Under current United States federal income tax law, a 28% backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of a sale, exchange or redemption of, the Bonds, the Principal Components and the Tax Credit Components. The IRS has not provided guidance regarding how the 28% backup withholding tax requirement will apply to the deemed interest payments represented by the Tax Credits. Therefore, it is not clear how or whether such withholding would occur. In addition, certain persons making such payments are required to submit information returns (that is, IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

Future Legislative or Regulatory Actions. Legislation and regulatory actions affecting tax credit obligations is continually being considered by the U.S. Congress and the Treasury Department and the IRS, respectively. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the classification of the Bonds as qualified school construction bonds, the ability of the Beneficial Owners of the Bonds to claim the Tax Credits associated therewith, or the entitlement to Beneficial Owners of Tax Credits that have been separated from the associated Principal Components of the Bonds. Legislative or regulatory actions may also affect the economic value of the Bonds or components thereof.

RATINGS

The Bonds have been assigned the underlying ratings of “A1” by Moody’s Investor Service (“**Moody’s**”), “AA-” by Standard & Poor’s, a Division of The McGraw Hill Companies, Inc. (“**Standard & Poor’s**”) and “A+” by Fitch Ratings (“**Fitch**”) based on the credit of the Board.

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

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2008, included in **APPENDIX A** to this Official Statement have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in their report appearing herein.

FINANCIAL ADVISOR

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

UNDERWRITING

Goldman, Sachs & Co. and J.P. Morgan Securities Inc., jointly as the representatives on behalf of themselves and the other underwriters listed on the cover of this Official Statement (the “**Underwriters**”), have agreed to purchase the Bonds at an aggregate purchase price of \$252,321,700 (representing an aggregate principal amount of \$254,240,000 less \$1,918,300 of Underwriter’s discount). The Bonds will be offered to the public at the prices as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering a Series of Bonds to the public.

The obligation of the Underwriters to accept delivery of and pay for the Bonds is subject to various conditions set forth in the Contract of Purchase to the Bonds, including, among others, the delivery of specified opinions of counsel and a certificate of the Board that there has been no material adverse changes in its conditions (financial or otherwise) from that set forth in this Official Statement.

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, as Bond Counsel. The proposed form of such opinion is included herein as **APPENDIX C**. Certain legal matters will be passed upon for the Board by Patrick A. Rocks, the Board’s General Counsel, and by its special counsel, Quarles & Brady LLP, Chicago, Illinois, and for the Underwriters by their counsel, Burke Burns & Pinelli, Ltd., Chicago, Illinois.

LITIGATION

General

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

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

Specific Matters

Advance Computer Technical Group, Inc. v. Board of Education of the City, et al. is a lawsuit filed by a computer-support-services vendor (“**ACTG**”) against the Board and another vendor, Unisys Corporation. Unisys was retained by the Board to oversee the Board’s computer-support-services program. The Board exercised a termination-for-convenience provision in its contract with ACTG effective June 30, 2006. ACTG claims that the Board’s termination of the contract constituted a breach, that the Board also breached the contract by not paying ACTG at an extra-contractual rate, and that Unisys tortiously interfered with the contract. ACTG seeks approximately \$12 million in alleged lost profits and \$30 million in alleged “lost business opportunities” based on the Board’s alleged wrongful termination of the contract, and approximately \$6 million based on the alleged underpayments.

Ryan Murray v. Board of Education of the City, et al. is a lawsuit filed as the result of an injury sustained in an accident involving the use of a mini-trampoline during an extracurricular program operated by Chicago Youth Centers (“**CYC**”). A suit was originally filed in 1993, voluntarily dismissed in 1997 and refiled in 1998. In 2002, the Board and CYC each won summary judgment in the trial court, based on statutory immunities, the plaintiff appealed, and in 2004, the appellate court affirmed the judgment. The Illinois Supreme Court allowed plaintiff’s petition for leave to appeal in 2005 and affirmed the appellate court’s judgment. In 2007, the Supreme Court granted the plaintiff’s petition for reconsideration, and ultimately issued a decision reversing the appellate court, and remanding the case to the trial court for resolution of the factual question of whether either defendant had engaged in willful and wanton conduct. It is probable that damages in this case will exceed \$1,000,000. The issue of liability is in dispute because CYC supervised the program and the use of the equipment and because Board personnel were not directly involved in the program. There is also a related insurance coverage issue in that one of the Board’s excess insurance providers claims it did not receive timely notice of the claim and the Board is at risk of having to pay 20% of the excess liability costs (over the \$3,000,000 deductible).

Chicago Teacher’s Union Grievance. CTU has filed a grievance against the Board, No. 2347/09-03-180, in which the CTU claims that 150 teachers were not provided the appropriate benefits of the Reassigned Teacher Pool under the union contract. If CTU is successful, the Board liability could be a significant amount, however, the Board is unable to assess the veracity of the grievance as of the date of the Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

The Board covenants in the Undertaking that it will disseminate its Annual Financial Information and its Audited Financial Statements, if any (as described below) in electronic format to the MSRB. The Board is required to deliver such information so the MSRB receives the information by the dates specified in the Undertaking.

“Annual Financial Information” means historical information generally consistent with information of the type set forth in this Official Statement under the captions “BOARD OF EDUCATION OF THE CITY OF CHICAGO — School System,” “— Recent Financial Information Concerning the Board,” “— General Operating Fund Balances,” “— Outstanding Debt Obligations,” “—Legal Debt Margin Information of the Board,” “— Board’s Interest Rate Swap Agreements,” “— Employee Pension Obligations” and “— Other Post-Employment Benefits.”

The Undertaking requires that Annual Financial Information, excluding the Audited Financial Statements, be provided to the MSRB on or prior to 210 days after the last day of the Board’s fiscal year.

“Audited Financial Statements” means the general purpose financial statements of the Board which are in conformity with generally accepted accounting principles in the United States and audited by independent auditors. The Undertaking requires that Audited Financial Statements will be provided to the MSRB within 30 days after availability to the Board.

Events Notification; Material Events Disclosure

The Board covenants in the Undertaking that it will disseminate to the MSRB in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The **“Events”** are (i) debt service payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the status of the Bonds as “qualified school construction bonds” within the meaning of Section 54F of the Code; (vii) modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Bonds; and (xi) rating changes.

The Board also covenants in the Undertaking that it will disseminate to the MSRB in a timely manner notice of its final expenditure of the proceeds of the Bonds from the Project Fund in the same manner as it has undertaken to provide notice of Events.

Consequences of Failure to Provide Information

The Board agrees in the Undertaking to give notice in a timely manner to the MSRB of any failure to provide disclosure of the Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

A default under the Undertaking shall not be deemed an event of default under the Resolutions or the Indenture with respect to the Bonds, and the sole remedy in the event of any failure of the Board to

comply with the Undertaking shall be an action to compel performance. A failure by the Board to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Amendment; Waiver

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

- (a) (i) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Board, or type of business conducted;
 - (ii) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
 - (iii) The amendment or waiver does not materially impair the interests of the Beneficial Owners of the Bonds, as determined by parties unaffiliated with the Board (such as the Trustee or Bond Counsel), or by the approving vote of the owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment; or
- (b) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

The Undertaking shall be terminated if the Board no longer has any legal liability relating to repayment of the Bonds. If a termination of this Undertaking occurs prior to the final maturity of the Bonds, the Board shall give notice in a timely manner to the MSRB.

Dissemination Agent

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

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AUTHORIZATION AND MISCELLANEOUS

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

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

By: /s/ Christina Herzog
Acting Chief Financial Officer

APPENDIX A

Audited Financial Statements for Fiscal Year 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Education of the City of Chicago
Chicago Public Schools
Chicago, Illinois

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS," a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2008, which collectively comprise the CPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chicago Public Schools, as of June 30, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Operating Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16 to the financial statements, CPS changed its method of accounting for revenue during the year ended June 30, 2008.

Management's discussion and analysis on pages A-2 through A-17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Chicago, Illinois
December 10, 2008

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2008

Our discussion and analysis of Chicago Public Schools' (CPS) financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2008. As the intent of this management discussion and analysis is to look at CPS' financial performance as a whole, readers should also review the transmittal letter, financial statements and notes to the basic financial statements to further enhance their understanding of CPS' financial performance.

FINANCIAL HIGHLIGHTS

At fiscal year end, total fund balance was \$1.73 billion in fiscal year 2008, an increase of \$148.3 million. In the General Operating Fund, unreserved funds increased from \$246 million in fiscal year 2007 as restated to \$432 million in 2008, an increase of \$186 million.

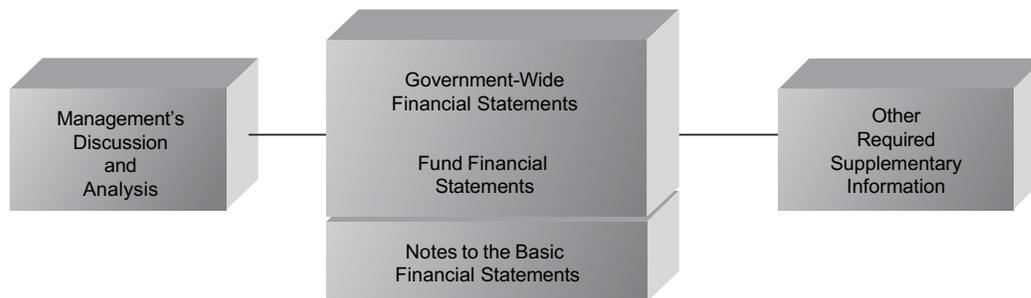
Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by \$300 million.

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued \$968.4 million in debt offerings in the current fiscal year to restructure its auction rate debt. CPS also terminated six swap agreements in the notional amount of \$965 million, which resulted in a \$20.5 million termination payment to the counterparties.

During the fiscal year, CPS issued \$238.7 million in debt offerings to further fund the Capital Improvement Program.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is comprised of different sections. The following graphic is provided to assist in the understanding of the format and its components:



OVERVIEW OF THE FINANCIAL STATEMENTS

Our Comprehensive Financial Annual Report consists of a series of financial statements and accompanying notes, with the primary focus being on the school district as a whole. Government-wide financial statements including the Statement of Net Assets and the Statement of Activities provide both short-term and long-term information of CPS' financial status. The fund financial statements provide a greater level of detail of how services are financed in the short-term as well as the remaining available resources for future

spending. The accompanying notes provide essential information that is not disclosed on the face of the financial statements and as such are an integral part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the school district's finances in a manner similar to a private sector business. The Statement of Net Assets and the Statement of Activities provide information about the activities of the school district as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The **Statement of Net Assets** presents information on all of CPS' assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The **Statement of Activities** presents information showing how net assets changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave).

Both of the government-wide financial statements distinguish functions of the CPS that are principally supported by taxes and intergovernmental revenues (*governmental activities*).

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

Condensed Statement of Net Assets **(Millions of dollars)**

	Governmental Activities			
	2008	2007	Difference	% Change
Current assets	\$3,989	\$3,848	\$ 141	3.7%
Capital assets, net	4,683	4,488	195	4.3%
Total Assets	<u>\$8,672</u>	<u>\$8,336</u>	<u>\$ 336</u>	4.0%
Current liabilities	\$ 924	\$ 934	\$ (10)	-1.1%
Long-term liabilities	7,849	7,288	561	7.7%
Total Liabilities	<u>\$8,773</u>	<u>\$8,222</u>	<u>\$ 551</u>	6.7%
Net Assets:				
Invested in capital assets net of related debt	\$ 133	\$ 267	\$(134)	-50.2%
Restricted for:				
Debt service	446	414	32	7.7%
Specific purposes	105	131	(26)	-19.8%
Unrestricted	(785)	(698)	(87)	12.5%
Total Net Assets	<u>\$ (101)</u>	<u>\$ 114</u>	<u>\$(215)</u>	-188.6%

- **Total assets** of \$8.7 billion increased due to larger accounts receivable balances, new school construction and other improvement projects as part of the CPS' Capital Improvement Program.

-
- **Capital assets**, net of depreciation, increased \$195 million or 4.3% over the prior fiscal year due to the continued progress of the Capital Improvement Program.
 - **Long-term debt** increased \$208 million, or 4.3%. The total long-term portion of debt outstanding and capitalized leases was \$4.82 billion in fiscal year 2007 and \$5.04 billion in fiscal year 2008. In fiscal year 2008, CPS issued \$238.7 million in Unlimited Tax General Obligation Bonds to fund the Capital Improvement Program.
 - **Accrued pension** increased to \$1.86 billion in fiscal year 2008 from \$1.75 billion in fiscal year 2007, an increase of \$105.9 million, or 6.1%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.
 - **Other postemployment benefits (OPEB) liability** increased to \$579.8 million in fiscal year 2008 from \$425.1 million in fiscal year 2007, an increase of \$154.7 million, or 36.4%. The year-end balance reflects the increase in net OPEB related to healthcare costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.
 - **Other long-term liabilities** including the current portion increased to \$441.3 million in fiscal year 2008 from \$343.9 million in fiscal year 2007, an increase of \$97.3 million, or 28.3%. The year-end balance reflects increases in accrued sick pay, vacation pay and workers' compensation of \$54.1 million, \$34.5 million and \$11.4 million respectively, and a decrease in tort liabilities of \$2.7 million.
 - **CPS' net assets** decreased \$214.5 million to (\$101) million. Of this amount, \$133 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of \$551 million are reported separately to present legal constraints from debt covenants and enabling legislation. The (\$785) million of unrestricted deficit represents the shortfall CPS would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2008.

The following table presents the changes in net assets from fiscal year 2007 to 2008:

Changes in Net Assets
(Millions of dollars)

	Governmental Activities			
	2008	2007	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	\$ 12	\$ 13	\$ (1)	-7.7%
Operating grants and contributions . . .	946	863	83	9.6%
Capital grants and contributions	129	97	32	33.0%
Total Program Revenues	<u>\$1,087</u>	<u>\$ 973</u>	<u>\$ 114</u>	11.7%
General Revenues:				
Property taxes	\$1,862	\$1,813	\$ 49	2.7%
Replacement taxes	215	201	14	7.0%
State aid	1,756	1,652	104	6.3%
Interest and investment earnings	86	154	(68)	-44.2%
Gain on sale of fixed assets	4	23	(19)	-82.6%
Miscellaneous	45	163	(118)	-72.4%
Total General Revenues	<u>\$3,968</u>	<u>\$4,006</u>	<u>\$ (38)</u>	-0.9%
Total Revenues	<u>\$5,055</u>	<u>\$4,979</u>	<u>\$ 76</u>	1.5%
Expenses:				
Instruction	\$3,138	\$3,097	\$ 41	1.3%
Support services:				
Pupil support services	385	361	24	6.6%
Administrative support services	206	179	27	15.1%
Facilities support services	520	461	59	12.8%
Instructional support services	497	481	16	3.3%
Food services	193	186	7	3.8%
Community services	47	45	2	4.4%
Interest expense	274	220	54	24.5%
Other	10	8	2	25.0%
Total Expenses	<u>\$5,270</u>	<u>\$5,038</u>	<u>\$ 232</u>	4.6%
Change in Net Assets	\$ (215)	\$ (59)	\$(156)	264.4%
Beginning Net Assets	114	173	(59)	-34.1%
Ending Net Assets	<u>\$ (101)</u>	<u>\$ 114</u>	<u>\$(215)</u>	-188.6%

Net Assets decreased to \$(101) million in fiscal year 2008 from \$114 million in fiscal year 2007, a decrease of \$215 million or 188.6%. Even though total revenues increased by \$114 million from fiscal year 2007, our expenditures exceeded our revenues in fiscal year 2008, primarily due to high pension and postemployment costs, which were \$105.9 million and \$154.7 million, respectively.

Capital Assets

At June 30, 2008, the CPS had \$4.7 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$195.6 million or 4.4% over the prior fiscal year (\$'000's).

	<u>2008</u>	<u>2007</u>	<u>Difference</u>	<u>% Change</u>
Land	\$ 261,337	\$ 248,713	\$ 12,624	5.1%
Buildings	6,251,840	6,051,231	200,609	3.3%
Construction in progress	467,100	354,531	112,569	31.8%
Equipment	<u>164,057</u>	<u>149,045</u>	<u>15,012</u>	10.1%
Total Capital Assets	\$ 7,144,334	\$ 6,803,520	\$ 340,814	5.0%
Less: Accumulated depreciation	<u>(2,460,786)</u>	<u>(2,315,633)</u>	<u>(145,153)</u>	6.3%
Total Capital Assets, net	<u>\$ 4,683,548</u>	<u>\$ 4,487,887</u>	<u>\$ 195,661</u>	4.4%

Capital assets increased due to the continued progress of the Capital Improvement Program. For more detailed information please refer to Note 6 to the basic financial statements.

Debt and Capitalized Lease Obligations

In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with \$100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with \$162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund \$262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of \$18,345,000 and \$24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in September 2007, CPS issued \$262,785,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007A) and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. The proceeds from these bonds were used to refund a portion of Series 1997A bonds. As a result of the issuance, net proceeds along with debt service funds on hand and proceeds related to CPS' swaption agreement totaling \$272,428,076 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase \$262,785,000 of the 1997A bonds in full on December 1, 2007, and the bonds are considered fully refunded.

In September 2007, CPS issued \$204,635,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007BC) at a premium of \$10,308,755. The proceeds from these bonds were used to refund a portion of Series 1997 and Series 1997A bonds and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of \$212,793,437 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase \$199,225,000 of the Series 1997A bonds and \$6,700,000 of the Series 1997 on December 1, 2007, and the bonds are considered fully refunded.

In December 2007, CPS issued \$238,720,000 in Unlimited Tax General Obligation Bonds (Series 2007D) at a premium of \$13,835,224. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$250,000,000 in the Capital Improvement Fund.

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued the following refunding bonds to restructure its auction rate debt:

In May 2008, CPS issued \$262,785,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A). The proceeds from these bonds were used to refund the Series 2007A bonds. CPS contributed \$9.5 million to pay for costs of issuance and fund debt service. As a result of the issuance, \$262,976,142 was deposited in a trust with an escrow agent to purchase the Series 2007A bonds upon the next remarketing. On May 16, 2008, the bonds were repurchased in full and are considered fully refunded.

In May 2008, CPS issued \$240,975,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B). The proceeds from these bonds were used to refund the Series 2003D bonds. CPS contributed \$0.9 million to pay for costs of issuance and fund debt service. As a result of the issuance, \$241,761,730 was deposited in a trust with an escrow agent to purchase the Series 2003D bonds upon the next remarketing. On May 30, 2008, the bonds were repurchased in full and are considered fully refunded.

In May 2008, CPS issued \$464,655,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2008C) at a premium of \$17,082,455. The proceeds from these bonds were used to refund the Series 2003B and Series 2004B bonds. CPS contributed \$4.3 million to the refunded escrow agent and \$2.5 million to pay for cost of issuance and fund debt service. As a result of the issuance, \$484,122,177 was deposited in a trust with an escrow agent to purchase the Series 2003B bonds and the Series 2004B bonds upon the next remarketing. On May 29, 2008, the bonds were repurchased in full and are considered fully refunded.

As of June 30, 2008, the CPS had \$5.12 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus \$4.89 billion last year, an increase of 4.5%. For more detailed information please refer to Notes 8 through 10 to the basic financial statements.

The Chicago School Finance Authority (SFA) was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. The SFA issued debt to fund construction and provide working capital. The principal amount of the SFA bonds outstanding as of June 30, 2008, net of bonds advance refunded or defeased is \$66.6 million. The SFA bonds are not a direct or contingent obligation of the CPS and the 1995 Amendatory Act suspended the oversight powers of the SFA through the end of 2010. For more detailed information please refer to Note 13 to the basic financial statements.

Pension Funding

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

State statutes determine the CPS' employer-required contribution to the Pension Fund, with the exception of federal funds. As of June 30, 2007, the funded ratio of the Pension Fund was 80.1% and the CPS has recorded an estimated pension liability of \$1.86 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Because the funded ratio was below 90%, the CPS was required to make a \$131.5 million contribution to the Pension Fund under the statutory requirements during fiscal year 2008.

All career service employees of the CPS, except CPS employees who are members of the Public School Teachers' Pension and Retirement Fund, participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Annuity Fund"). Covered employees are required by State statute to contribute 8.5% of their salary. In fiscal year 2008, as in previous fiscal years, the CPS paid a portion, 7%, or \$35.7 million of the required employees' contribution for most employees. For more detailed information please refer to the Note 12 to the basic financial statements.

OVERVIEW OF FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CPS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All CPS funds are reported in the governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources, as well as on balances of spendable resources* available at the end of the fiscal year for spending in future years. Such information may be useful in evaluating a government's near-term financing requirements.

These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. These statements provide a detailed short-term view of the school district's operations and the services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The CPS' fund financial statements provide detailed information about the most significant funds — not the CPS as a whole. The CPS' governmental funds use the following accounting approach. All of the CPS' services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the CPS' operations and the services it provides.

CPS maintains three significant governmental funds: General Operating, Capital Projects, and Debt Service. The following schedules present a summary of the general operating fund, capital projects fund and debt service fund revenues and other financing sources by type and expenditures by program for the period ended June 30, 2008 as compared to June 30, 2007. They also depict the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

During fiscal year 2008, CPS changed its revenue recognition policy for non-exchange transactions such as State aid, Federal aid, and replacement taxes to consider these revenues susceptible to accrual from 90 days to 30 days. The change resulted in a fund balance restatement decreasing the beginning fund balance by \$159.5 million. This change is consistent with CPS' current revenue recognition policy for property taxes. For more detailed information please refer to the Note 16 to the basic financial statements.

Total Revenues, Other Financing Sources and Expenditures
(Millions of Dollars)

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u> <u>(as restated)</u>	<u>2008</u> <u>Percent</u> <u>Of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>From 2007</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u> <u>from 2007</u>
Revenues:					
Property taxes	\$1,814	\$1,768	34.4%	\$ 46	2.6%
Replacement taxes	215	201	4.1%	14	7.0%
State aid	1,846	1,680	35.1%	166	9.9%
Federal aid	876	720	16.6%	156	21.7%
Investment income	86	117	1.6%	(31)	-26.5%
Other	<u>181</u>	<u>286</u>	<u>3.4%</u>	<u>(105)</u>	<u>-36.7%</u>
Subtotal	\$5,018	\$4,772	95.3%	\$ 246	5.2%
Other financing sources	<u>248</u>	<u>396</u>	<u>4.7%</u>	<u>(148)</u>	<u>-37.4%</u>
Total	<u>\$5,266</u>	<u>\$5,168</u>	<u>100.0%</u>	<u>\$ 98</u>	<u>1.9%</u>
Expenditures:					
Instruction	\$2,575	\$2,492	50.3%	\$ 83	3.3%
Pupil support services	362	349	7.1%	13	3.7%
General support services	987	914	19.3%	73	8.0%
Food services	182	180	3.6%	2	1.1%
Community services	45	45	0.9%	—	0.0%
Teachers' pension	207	156	4.0%	51	32.7%
Capital outlay	467	346	9.1%	121	35.0%
Debt service	282	342	5.5%	(60)	-17.5%
Other	<u>11</u>	<u>8</u>	<u>0.2%</u>	<u>3</u>	<u>37.5%</u>
Total	<u>\$5,118</u>	<u>\$4,832</u>	<u>100.0%</u>	<u>\$ 286</u>	<u>5.9%</u>
Change in Fund Balance	<u>\$ 148</u>	<u>\$ 336</u>			

General Operating Fund

The general operating fund reflects all daily operational transactions. Following is a discussion and analysis of significant revenue and expenditure trends:

Revenues:

Revenues and Other Financing Sources (Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	2008 Percent of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Property taxes	\$1,763	\$1,716	38.4%	\$ 47	2.7%
Replacement taxes	159	147	3.5%	12	8.2%
State aid	1,692	1,528	36.9%	164	10.7%
Federal aid	833	686	18.1%	147	21.4%
Investment income	41	62	0.9%	(21)	-33.9%
Other	97	96	2.1%	1	1.0%
Subtotal	<u>\$4,585</u>	<u>\$4,235</u>	<u>99.9%</u>	<u>\$350</u>	<u>8.3%</u>
Other financing sources	<u>4</u>	<u>2</u>	<u>0.1%</u>	<u>2</u>	<u>100.0%</u>
Total	<u><u>\$4,589</u></u>	<u><u>\$4,237</u></u>	<u><u>100.0%</u></u>	<u><u>\$352</u></u>	<u><u>8.3%</u></u>

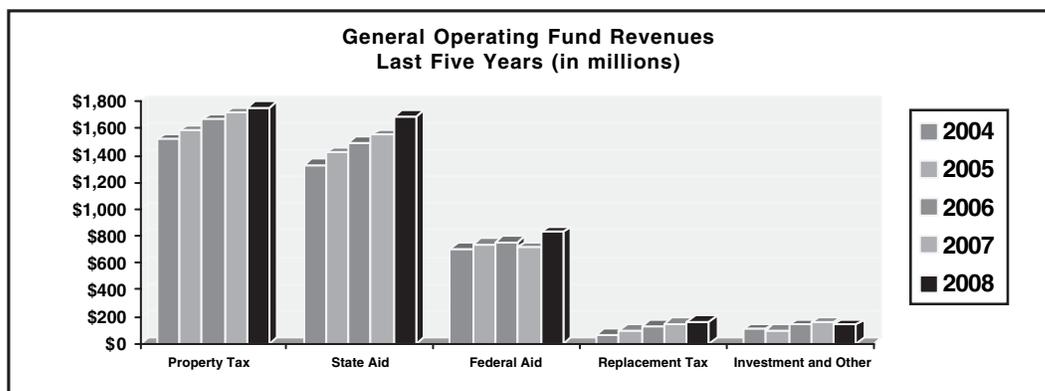
Property taxes increased by \$47 million from fiscal year 2007 due to increases in tax levies of 3.4% and new construction.

Personal property replacement taxes increased \$12 million from fiscal year 2007, as a result of higher corporate profits.

State aid increased by \$164 million due to a \$400 per pupil increase in foundation level, up to \$5,734 per student.

Federal aid increased \$147 million due to increased spending on E-rate maintenance projects and the change in the revenue recognition policy for non-exchange transactions.

Investment income decreased \$21 million from fiscal year 2007, due to lower interest rates.

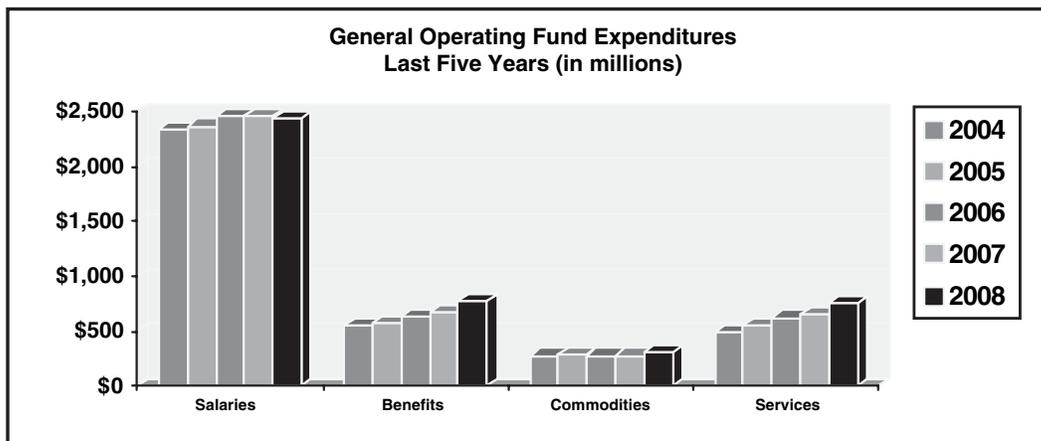


Expenditures:
(Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Salaries	\$2,445	\$2,459	55.6%	\$ (14)	-0.6%
Benefits	767	675	17.5%	92	13.6%
Services	748	650	17.0%	98	15.1%
Commodities	307	274	7.0%	33	12.0%
Other	128	88	2.9%	40	45.5%
Total	<u>\$4,395</u>	<u>\$4,146</u>	<u>100.0%</u>	<u>\$249</u>	6.0%

Total expenditures increased by \$249 million, primarily due to the increase in:

- Salaries decreased by \$14 million primarily due to the high number of teachers that retired in June 2007 and were replaced by teachers at lower salaries, an increase of charter schools and declining student enrollment.
- Benefit charges increased by \$92 million mainly due to an increase in teacher's and career service pension costs of \$74.4 million, hospitalization costs of \$9.6 million and an increase in workers' compensation costs of \$5.1 million.
- Services increased by \$98 million primarily due to an increase in payments to Charter schools of \$48 million and an increase in professional services of \$38 million.
- Commodities increased by \$33 million primarily due to an increase in textbooks of \$24 million and an increase in energy costs of \$9 million due to rising fuel costs.
- Other expenditures increased by \$40 million, because during fiscal year 2008 CPS terminated six swap agreements which resulted in a termination payment made to the counterparties of \$20.5 million and also an increase in repairs and equipment of \$20 million.



Capital Projects Fund

The capital projects fund reflects the revenues and expenditures for CPS' capital projects.

Revenues and Other Financing Sources (Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
State aid	\$ —	\$ 18	0.0%	\$ (18)	100.0%
Federal aid	43	34	11.0%	9	26.5%
Investment income	26	35	6.7%	(9)	-25.7%
Other	61	37	15.7%	24	64.9%
Subtotal	\$130	\$124	33.4%	\$ 6	4.8%
Other financing sources	259	396	66.6%	(137)	-34.6%
Total	<u>\$389</u>	<u>\$520</u>	<u>100.0%</u>	<u>\$(131)</u>	<u>-25.2%</u>

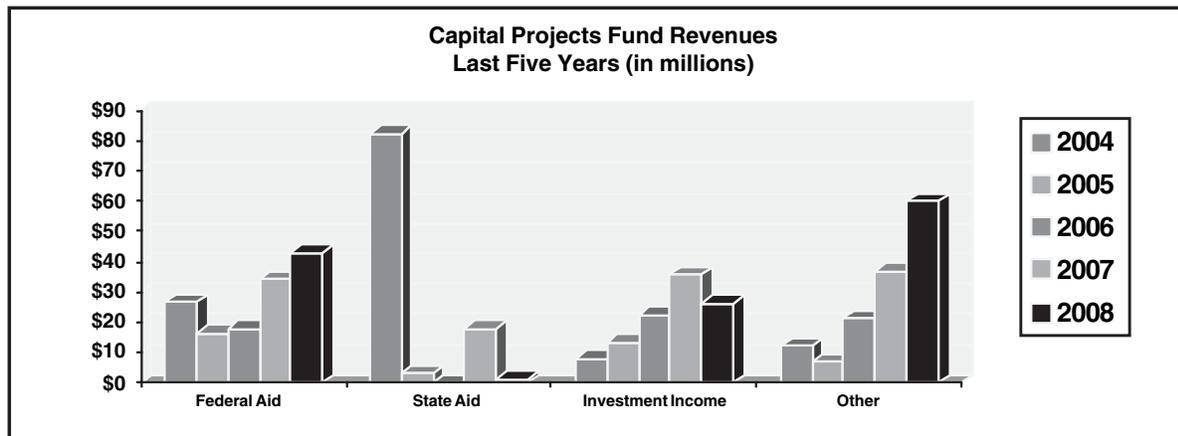
State aid was not allocated to the Capital Projects Fund during fiscal year 2008.

Federal aid increased \$9 million due to an increase in E-rate capital projects.

Investment income decreased \$9 million from fiscal year 2007, due to lower interest rates.

Other income increased \$24 million from fiscal year 2007, due to the fact that the City of Chicago continues to provide financial resources to CPS as part of the Modern Schools across Chicago Program, these funds are used to finance the construction and improvement of elementary and high schools that are part of CPS' school system.

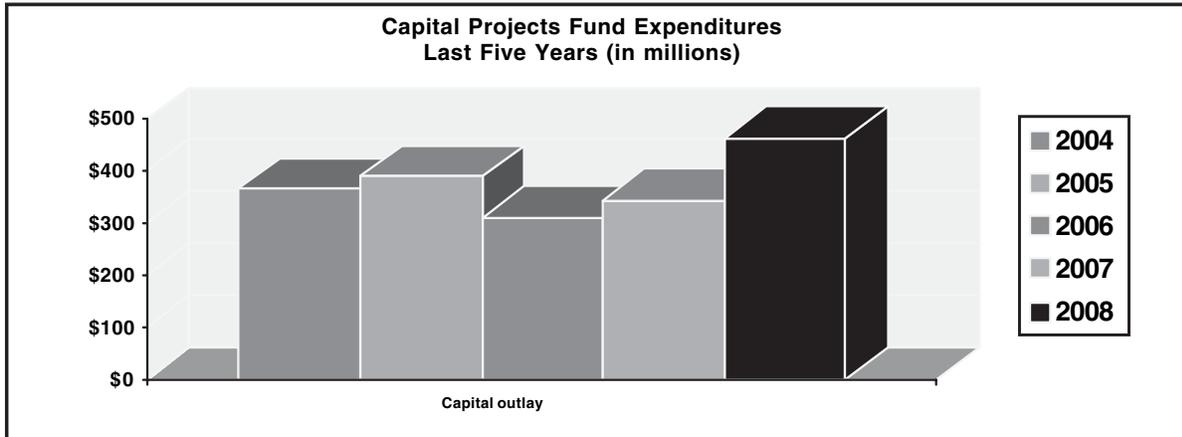
Other financing sources decreased \$137 million from fiscal year 2007, because CPS issued only \$238.7 million in debt offerings to fund the Capital Improvement Program in the current year which is significantly lower than the \$355.8 million issued during fiscal year 2007.



Expenditures:
(Millions of Dollars)

	<u>2008 Amount</u>	<u>2007 Amount (as restated)</u>	<u>Increase (Decrease) From 2007</u>	<u>Percent Increase (Decrease) from 2007</u>
Capital Outlay	\$463	\$345	\$118	34.2%

Capital Outlay increased by \$118 million due to the continuation of the Capital Improvement Program.



Debt Service Fund

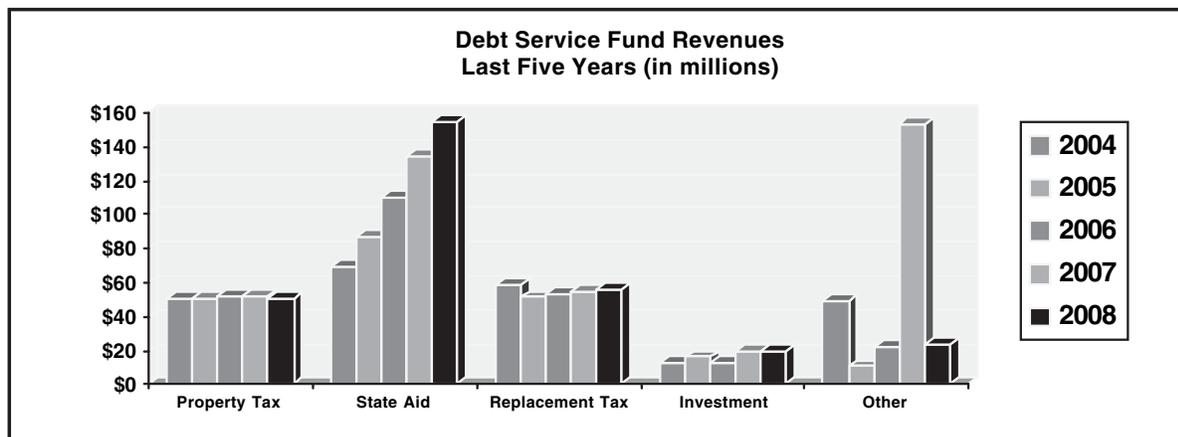
The debt service fund reflects the property tax revenues and other revenues that are used for the payment of principal and interest and redemption for general obligation bonds and for lease payment to the Public Building Commission.

Revenues and Other Financing Sources (Millions of Dollars)

	2008 Amount	2007 Amount	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Property taxes	\$ 50	\$ 51	17.4%	\$ (1)	-2.0%
Replacement taxes	56	54	19.4%	2	3.7%
State aid	154	134	53.5%	20	14.9%
Investment income	19	19	6.6%	—	0.0%
Other	24	154	8.3%	(130)	-84.4%
Subtotal	\$303	\$412	105.2%	\$(109)	-26.5%
Other financing sources (uses)	(15)	(2)	-5.2%	(13)	650.0%
Total	<u>\$288</u>	<u>\$410</u>	<u>100.0%</u>	<u>\$(122)</u>	-29.8%

State aid increased by \$20 million to provide debt service for new general obligation bonds.

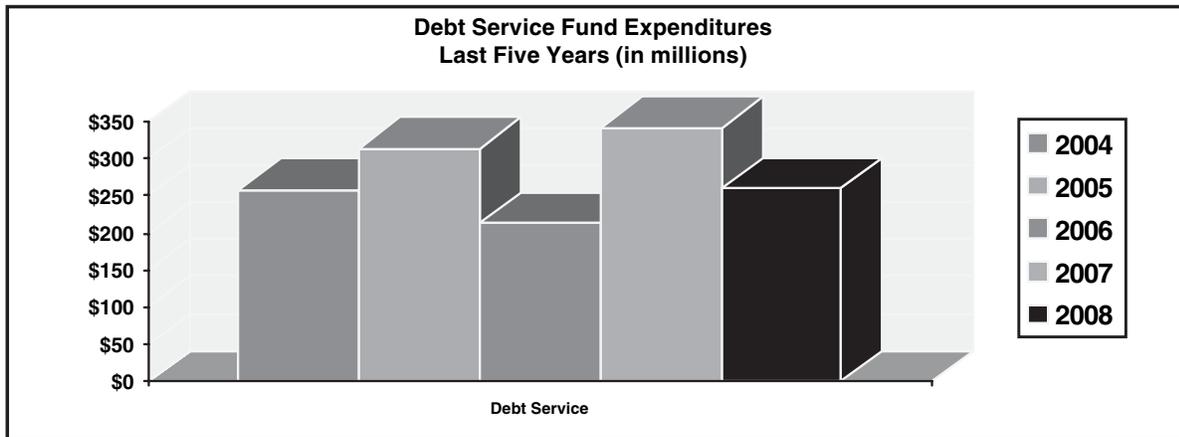
Other income decreased \$130 million from fiscal year 2007, because the prior year balance included proceeds from the City of Chicago's general obligation bonds Series A-K (Modern School Across Chicago); these proceeds were used to defease CPS' general obligation bonds, Series 2004F, Series 2004H and Series 2005C.



Expenditures:
(Millions of Dollars)

	<u>2008 Amount</u>	<u>2007 Amount (as restated)</u>	<u>Increase (Decrease) From 2007</u>	<u>Percent Increase (Decrease) from 2007</u>
Debt service	\$260	\$341	\$(81)	-23.8%

Debt Service decreased by \$81 million because the 2007 balance included the defeasance of CPS' bond series 2004F, 2004H and 2005C with funds provided by the City of Chicago.



Notes to Basic Financial Statements

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

BUDGETARY HIGHLIGHTS

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

The budget is prepared by fund, account, and unit. Certain funding allocations (primarily Federal and State programs, including Supplementary General State Aid) are made to schools but are not budgeted by account by the schools at the time the budget is adopted. These allocations are included in Other Fixed Charges for budget purposes. During the fiscal year, upon receiving the appropriate approvals from regional offices and the Office of Management and Budget, transfers are made to the appropriate accounts. These transfers are reflected in the schedule shown below. During fiscal year 2008 there were no amendments to the original budget.

The following schedule also presents a summary of the general operating fund revenues and other financing sources by type and expenditures for the period ended June 30, 2008 compared to the final budget as of June 30, 2008.

Revenues, Other Financing Sources and Expenditures
General Operating Fund
Budget to Actual Comparison
(Millions of Dollars)

	<u>FY 2008 Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>FY 2008 Actual</u>	<u>Variance</u>
Revenues:					
Property taxes	\$1,771	\$ —	\$1,771	\$1,763	\$ (8)
Replacement taxes	146	—	146	160	14
State aid	1,653	—	1,653	1,692	39
Federal aid	862	—	862	833	(29)
Investment income	37	—	37	41	4
Other	<u>70</u>	<u>—</u>	<u>70</u>	<u>97</u>	<u>27</u>
Subtotal	\$4,539	\$ —	\$4,539	\$4,586	\$ 47
Other financing sources	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>4</u>
Total	<u>\$4,539</u>	<u>\$ —</u>	<u>\$4,539</u>	<u>\$4,590</u>	<u>\$ 51</u>
Expenditures:					
Salaries	\$2,574	\$ 38	\$2,612	\$2,445	\$(167)
Benefits	832	(50)	782	767	(15)
Services	655	114	769	748	(21)
Commodities	317	5	322	307	(15)
Other fixed charges	<u>270</u>	<u>(107)</u>	<u>163</u>	<u>128</u>	<u>(35)</u>
Total	<u>\$4,648</u>	<u>\$ —</u>	<u>\$4,648</u>	<u>\$4,395</u>	<u>\$(253)</u>
Change in Fund Balance	<u>\$ (109)</u>			<u>\$ 195</u>	

Actual General Operating Fund revenues were \$47 million higher than the budgeted amount. The variance is primarily due to:

- Replacement tax revenue is \$14 million over budget due to higher corporate profits.
- State aid is \$39 million higher than budget due to timing of state aid payments.
- Federal aid is \$29 million lower than budget due to aggressive budgeting of federal revenues based on potential grant awards.
- Other income is \$27 million higher than budget due to Education Support Personnel (ESP) On-behalf pension payments and higher private grants.

Actual General Operating Fund expenditures were \$253 million under budget. The variance is primarily due to:

- Salaries expenditure was under budget by \$167 million due to teacher's salaries, which were under budget by \$150 million and career service salaries which were also under budget by \$17 million.
- Benefit charges expenditure was under budget by \$15 million due to unemployment compensation costs and workers' compensation costs which were under budget by \$10 million and \$4.8 million respectively.
- Services expenditure was under budget by \$21 million due to lower spending for professional services.
- Commodities expenditure was under budget by \$15 million due to reduced spending on food and supplies of \$4.8 million and \$9.7 million, respectively.
- Other Fixed charges expenditure was under budget by \$35 million due to less spending in contingency projects and general liability insurance.

In August 2007, the Board adopted a balanced budget for fiscal year 2008 that reflected total resources, including \$109 million of available fund balances, and appropriations of \$4.65 billion for the General Operating Fund.

In August 2008, the Board adopted a balanced budget for fiscal year 2009 that reflected total resources, including \$145.2 million of available fund balances, and appropriations of \$4.85 billion for the General Operating Fund.

REQUESTS FOR INFORMATION

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

The Chicago Public Schools
Office of the Controller
125 South Clark Street, 14th Floor
Chicago, Illinois, 60603

Or visit our website at: <http://www.cps.edu> for a complete copy of this report and other financial information.

(Please note that some amounts may not tie to the financial statements due to rounding.)

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2008

(Thousands of Dollars)

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and investments	\$1,117,433
Cash and investments in escrow	969,166
Cash and investments held in school internal accounts	30,167
Property taxes receivable, net of allowance	1,009,746
Other receivables:	
Replacement taxes	32,511
State aid, net of allowance	515,087
Federal aid	223,988
Other	57,983
Other assets	32,516
Total Current Assets:	<u>\$3,988,597</u>
Non-current Assets:	
Land and construction in progress	728,437
Buildings, building improvements and equipment, net of accumulated depreciation	<u>3,955,111</u>
Total Assets	<u><u>\$8,672,145</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 284,650
Accrued payroll and benefits	495,167
Amount held for student activities	30,167
Other accrued liabilities	10,932
Deferred revenue	898
Interest payable	23,481
Current portion of long-term debt and capitalized lease obligations	<u>79,035</u>
Total Current Liabilities:	<u>\$ 924,330</u>
Long-term liabilities:	
Debt, net of premiums and discounts	4,647,901
Capitalized lease obligations	388,835
Pension	1,857,347
Other postemployment benefits	579,803
Other benefits and claims	<u>374,888</u>
Total Liabilities	<u><u>\$8,773,104</u></u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 133,440
Restricted:	
Debt service	445,782
Donations	1,826
Enabling legislation	102,695
Unrestricted	<u>(784,702)</u>
Total Net Assets	<u><u>\$ (100,959)</u></u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008
(Thousands of Dollars)

		<u>Program Revenues</u>			<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
FUNCTIONS/PROGRAMS					
<i>Governmental activities:</i>					
Instruction	\$3,138,036	\$ 3,940	\$505,529	\$ 82,158	\$(2,546,409)
Support services:					
Pupil support services	384,765	—	28,365	11,560	(344,840)
Administrative support					
services	205,693	—	70,778	6,180	(128,735)
Facilities support					
services	519,982	—	13,753	12,302	(493,927)
Instructional support					
services	496,708	—	138,902	13,004	(344,802)
Food services	193,614	8,537	156,956	2,690	(25,431)
Community services	46,779	—	31,440	676	(14,663)
Interest expense	274,356	—	—	—	(274,356)
Other	10,652	—	—	—	(10,652)
Total Governmental					
Activities	<u>\$5,270,585</u>	<u>\$12,477</u>	<u>\$945,723</u>	<u>\$128,570</u>	<u>\$(4,183,815)</u>
 General Revenues:					
Taxes:					
Property taxes					\$1,861,781
Replacement taxes					215,489
Non-program State aid					1,756,386
Interest and investment earnings					85,896
Gain on sale of fixed assets					4,369
Miscellaneous					45,386
Total General Revenues					<u>\$3,969,307</u>
Change in net assets					\$ (214,508)
Net assets — beginning					113,549
Net assets — ending					<u>\$ (100,959)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS

June 30, 2008

(Thousands of Dollars)

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
ASSETS:				
Cash and investments	\$1,020,304	\$ —	\$ 97,129	\$1,117,433
Cash and investments in escrow	6,180	622,887	340,099	969,166
Cash and investments held in school internal accounts	30,167	—	—	30,167
Receivables:				
Property taxes, net of allowance	982,212	—	27,534	1,009,746
Replacement taxes	30,934	—	1,577	32,511
State aid, net of allowance	515,087	—	—	515,087
Federal aid	222,067	1,921	—	223,988
Other	8,405	46,135	3,443	57,983
Due from other funds	66,376	39,827	22,014	128,217
Other assets	5,098	—	—	5,098
Total Assets	<u>\$2,886,830</u>	<u>\$710,770</u>	<u>\$491,796</u>	<u>\$4,089,396</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 248,703	\$ 22,654	\$ 13,293	\$ 284,650
Accrued payroll and benefits	428,753	—	—	428,753
Amount held for student activities	30,167	—	—	30,167
Due to other funds	61,841	66,376	—	128,217
Deferred property tax revenue	981,991	—	27,543	1,009,534
Other deferred revenue	465,779	15,637	—	481,416
Total Liabilities	<u>\$2,217,234</u>	<u>\$104,667</u>	<u>\$ 40,836</u>	<u>\$2,362,737</u>
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	\$ 132,684	\$268,597	\$ —	\$ 401,281
Reserved for restricted donations	1,826	—	—	1,826
Reserved for specific purposes	102,695	—	—	102,695
Reserved for debt service	—	—	272,471	272,471
Unreserved:				
Designated to provide operating capital	258,000	—	—	258,000
Undesignated	174,391	337,506	178,489	690,386
Total Fund Balances	<u>\$ 669,596</u>	<u>\$606,103</u>	<u>\$450,960</u>	<u>\$1,726,659</u>
Total Liabilities and Fund Balances	<u>\$2,886,830</u>	<u>\$710,770</u>	<u>\$491,796</u>	<u>\$4,089,396</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

June 30, 2008

(Thousands of Dollars)

Total fund balances — governmental funds	\$ 1,726,659
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.	
Deferred charges — bond issuance costs	27,418
The cost of capital assets (land, buildings and improvements and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets are allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in the governmental funds.	
Cost of capital assets	7,144,334
Accumulated depreciation	(2,460,786)
Liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations is not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	
Other accrued liabilities	\$ (10,932)
Debt, net of premiums and discounts	(4,701,456)
Capitalized lease obligations	(414,315)
Pension	(1,857,347)
Other postemployment benefits	(579,803)
Other benefits and claims	<u>(441,302)</u>
	(8,005,155)
Interest payable	(23,481)
Revenues that have been deferred or unearned in the governmental funds because they are not available but are recognized as revenue in the government-wide financial statements.	
Deferred property tax revenue	1,009,534
Other deferred revenue	<u>480,518</u>
Net Assets	<u><u>\$ (100,959)</u></u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2008

With Comparative Amounts for the Fiscal Year Ended June 30, 2007

(Thousands of Dollars)

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Fiscal Year Ended June 30, 2008</u>	<u>Total Fiscal Year Ended June 30, 2007 (as restated)</u>
REVENUES:					
Property taxes	\$1,763,282	\$ —	\$ 50,635	\$ 1,813,917	\$1,767,760
Replacement taxes	159,805	—	55,684	215,489	201,509
State aid	1,692,351	58	153,625	1,846,034	1,680,506
Federal aid	832,526	43,515	—	876,041	719,818
Interest and investment income	40,905	25,970	19,020	85,895	116,907
Other	96,816	60,457	23,755	181,028	286,139
Total Revenues	<u>\$4,585,685</u>	<u>\$ 130,000</u>	<u>\$ 302,719</u>	<u>\$ 5,018,404</u>	<u>\$4,772,639</u>
EXPENDITURES:					
Instruction	\$2,575,124	\$ —	\$ —	\$ 2,575,124	\$2,491,653
Pupil support services	362,325	—	—	362,325	349,324
Administration support services	193,696	—	—	193,696	173,283
Facilities support services	385,601	—	—	385,601	353,410
Instructional support services	407,608	—	—	407,608	387,424
Food services	181,778	—	—	181,778	179,902
Community services	45,708	—	—	45,708	45,467
Teacher's pension and retirement benefits	206,651	—	—	206,651	155,563
Capital outlay	3,838	463,057	—	466,895	345,963
Debt service	21,704	—	260,438	282,142	342,179
Other	10,652	—	—	10,652	8,126
Total Expenditures	<u>\$4,394,685</u>	<u>\$ 463,057</u>	<u>\$ 260,438</u>	<u>\$ 5,118,180</u>	<u>\$4,832,294</u>
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	<u>\$ 191,000</u>	<u>\$(333,057)</u>	<u>\$ 42,281</u>	<u>\$ (99,776)</u>	<u>\$ (59,655)</u>
OTHER FINANCING SOURCES (USES):					
Gross amounts from debt issuances	\$ —	\$ 238,720	\$ 1,435,835	\$ 1,674,555	\$ 355,805
Premiums	—	13,835	27,391	41,226	14,444
Sales of general capital assets	—	6,404	—	6,404	25,673
Payment to refunded bond escrow agent	—	—	(1,474,081)	(1,474,081)	—
Transfers in/(out)	3,813	—	(3,813)	—	—
Total other financing sources (uses)	<u>\$ 3,813</u>	<u>\$ 258,959</u>	<u>\$ (14,668)</u>	<u>\$ 248,104</u>	<u>\$ 395,922</u>
NET CHANGE IN FUND BALANCES					
Fund Balances, beginning of period as restated (Note 16)	474,783	680,201	423,347	1,578,331	1,242,064
Fund Balances, end of period	<u>\$ 669,596</u>	<u>\$ 606,103</u>	<u>\$ 450,960</u>	<u>\$ 1,726,659</u>	<u>\$1,578,331</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2008

(Thousands of Dollars)

Total net change in fund balances — governmental funds	\$ 148,328
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceed the depreciation in the period.	
Capital outlay/equipment	\$ 368,866
Depreciation expense	<u>(171,127)</u>
	197,739
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets	(1,674,555)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities	1,516,152
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental fund because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest cost is recognized as the interest accrues, regardless of when it is due	(63,450)
Government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities	(11,673)
Since some property taxes and grants will not be collected for several months after the CPS' fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead recorded as deferred revenues. They are, however, recorded as revenues in the Statement of Activities	
Property taxes	47,865
Grants	(14,905)
In the Statement of Activities, legal settlements, sick pay, vacation pay, workers' compensation, general and automobile insurance, net pension obligation and other postemployment benefits are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid.	
Legal settlements	2,750
Sick pay	(54,161)
Vacation pay	(34,531)
Workers' compensation	(11,404)
General and automobile liability	35
Net pension obligation	(105,920)
Other postemployment benefits	(154,699)
In the Statement of Activities, only gains on the disposal of capital assets are reported, whereas in the governmental funds, the entire proceeds are recorded	<u>(2,079)</u>
Change in Net Assets	<u>\$ (214,508)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

**STATEMENT OF REVENUES, EXPENDITURES BY OBJECT,
OTHER FINANCING SOURCES AND NET CHANGES IN FUND BALANCE
FINAL APPROPRIATIONS VS. ACTUAL — GENERAL OPERATING FUND
For the Fiscal Year Ended June 30, 2008
(Thousands of Dollars)**

	<u>Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>Fiscal Year Actual</u>	<u>Variance</u>
REVENUES:					
Property taxes	\$1,770,689	\$ —	\$1,770,689	\$1,763,282	\$ (7,407)
Replacement taxes	145,900	—	145,900	159,805	13,905
State aid	1,653,332	—	1,653,332	1,692,351	39,019
Federal aid	862,162	—	862,162	832,526	(29,636)
Interest and investment income	36,650	—	36,650	40,905	4,255
Other	70,523	—	70,523	96,816	26,293
Total Revenues	<u>\$4,539,256</u>	<u>\$ —</u>	<u>\$4,539,256</u>	<u>\$4,585,685</u>	<u>\$ 46,429</u>
EXPENDITURES:					
Salaries —					
Teachers	\$2,011,812	\$ 23,185	\$2,034,997	\$1,885,400	\$149,597
Career services	561,881	15,415	577,296	559,741	17,555
Commodities —					
Energy	90,951	(5,875)	85,076	86,759	(1,683)
Food	89,477	(1,312)	88,165	83,326	4,839
Textbooks	82,784	8,016	90,800	89,514	1,286
Supplies	52,592	3,155	55,747	46,030	9,717
Other	1,679	299	1,978	910	1,068
Services —					
Professional fees	319,700	65,355	385,055	360,277	24,778
Charter schools	15	191,386	191,401	189,006	2,395
Transportation	84,260	21,066	105,326	102,828	2,498
Tuition	235,379	(170,898)	64,481	65,105	(624)
Telephone and telecommunications	4,952	355	5,307	17,671	(12,364)
Other	10,457	6,946	17,403	13,253	4,150
Equipment — Educational	20,233	28,185	48,418	39,003	9,415
Building and sites —					
Repairs and replacements	39,184	3,250	42,434	36,999	5,435
Capital outlay	—	—	—	10	(10)
Fixed charges —					
Teachers' pension	349,301	(3,974)	345,327	350,483	(5,156)
Career service pension	89,676	(1,627)	88,049	89,776	(1,727)
Hospitalization and dental insurance	307,282	(41,105)	266,177	260,386	5,791
Medicare	34,382	(2,868)	31,514	31,075	439
Unemployment compensation	10,831	(236)	10,595	5,764	4,831
Workers compensation	40,534	(581)	39,953	29,757	10,196
Rent	10,681	1,486	12,167	11,020	1,147
Debt service	1,420	—	1,420	21,704	(20,284)
Other	198,793	(139,623)	59,170	18,888	40,282
Total Expenditures	<u>\$4,648,256</u>	<u>\$ —</u>	<u>\$4,648,256</u>	<u>\$4,394,685</u>	<u>\$253,571</u>
REVENUES IN EXCESS OF/(LESS THAN)					
EXPENDITURES	<u>\$ (109,000)</u>	<u>\$ —</u>	<u>\$ (109,000)</u>	<u>\$ 191,000</u>	<u>\$300,000</u>
OTHER FINANCING SOURCES					
Transfers in	—	—	—	3,813	3,813
Total other financing sources	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,813</u>	<u>\$ 3,813</u>
NET CHANGE IN FUND BALANCE	<u>\$ (109,000)</u>	<u>\$ —</u>	<u>\$ (109,000)</u>	<u>\$ 194,813</u>	<u>\$303,813</u>
Fund Balance, beginning of period as restated					
(Note 16)	474,783	—	474,783	474,783	—
Fund Balance, end of period	<u>\$ 365,783</u>	<u>\$ —</u>	<u>\$ 365,783</u>	<u>\$ 669,596</u>	<u>\$303,813</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

As a result of legislation passed by the Illinois General Assembly, which became effective on June 30, 1995, the Mayor of the City of Chicago appoints the members of the Board of Education of the City of Chicago. The CPS is excluded from the City's reporting entity because it does not meet the financial accountability criteria for inclusion established by the Governmental Accounting Standards Board (GASB).

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

New Accounting Standards

GASBS 53, *Accounting and Financial reporting for Derivative Instruments* is effective for CPS with its year ended June 30, 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

Description of Government-Wide Financial Statements

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the activities of the CPS. Interfund balances have been removed from these statements but the services provided and used are not eliminated in the process of consolidation.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 30 days of fiscal year end. For this purpose, the CPS also considers State aid, Federal aid and replacement tax revenues that are susceptible to accrual to be available if they are collected within 30 days of fiscal year end. This represents a change from previous fiscal years which resulted in a fund balance restatement for prior years described in Note 16. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

a. General Operating Fund

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

- Educational Program
- Supplementary General State Aid Program
- School Food Service Program
- Elementary and Secondary Education Act (ESEA) Program
- Individuals with Disabilities Education Act (IDEA) Program
- Workers' and Unemployment Compensation/Tort Immunity Program
- Public Building Commission Operations and Maintenance Program
- Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

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

Receivables and Payables

CPS records as its property taxes receivable amounts equal to the current year tax levy plus the two years prior levies net of an allowance for estimated uncollectible amounts. The allowance is recorded at 3.5% of the gross levy.

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2007 property taxes were levied for fiscal year 2008 in December 2007, and were billed in fiscal year 2008. In 2008, the installment due dates were March 1 and November 3. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. The treasurers of Cook and DuPage counties, who distribute such receipts to the CPS, receive collections of property tax installments. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. The levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the Board passes the levy for the current fiscal year.

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

Capital Assets

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

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

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

Beginning in fiscal year 2005, CPS implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle. There were no capital asset impairments during fiscal year 2008.

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

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

Depreciation of buildings and building improvements placed in service prior to fiscal year 2002 was calculated using a composite rate that CPS estimated to be 32 years. For items placed in service

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

subsequent to fiscal year 2001, CPS utilizes the estimated useful lives for specific components within the range noted above.

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

Vacation and Sick Pay

The CPS provides vacation and sick pay benefits for substantially all of its employees. Accrued sick pay benefits were computed using the termination payment method. The liability for accrued vacation pay benefits was computed using the employee's actual daily wage.

Long-term Obligations

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

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

Swaps

CPS enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

As a result of the collapse of the variable Auction Rate market in February 2008, CPS terminated six swap agreements in the notional amount of \$965,275,000. The termination amounts were determined by negotiated and market quotation methods which resulted in a \$20.5 million termination payment to the counterparties.

Fund Balances and Net Assets

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

The Statement of Net Assets includes the following:

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Comparative Data

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

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

In August 2007, the Board adopted a balanced budget for fiscal year 2008 that reflected total resources, including \$109 million of available reserved fund balances, and appropriations of \$4.65 billion for the General Operating Fund.

In August 2008, the Board adopted a balanced budget for fiscal year 2009 that reflected total resources, including \$145.2 million of available reserved fund balances, and appropriations of \$4.85 billion for the General Operating Fund.

The Capital Projects Fund is budgeted on a project-by-project basis. Budgeted amounts in the Capital Projects Fund represent the entire project budget for projects that were expected to commence in fiscal year 2008. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

As part of the annual budgetary process, CPS adopts a resolution each December in which it is determined to levy real estate taxes. This tax levy resolution imposes property taxes in terms of a dollar amount. The Truth in Taxation Law requires that notice in prescribed form must be published and a public hearing must be held if the aggregate annual levy exceeds 105% of the levy of the preceding year.

Since the 1994 levy year, CPS has been subject to the Property Tax Extension Limitation Law (PTELL). The PTELL, commonly known as the property-tax cap, is designed to limit the increases in property taxes billed for non-home rule taxing districts. The growth in a taxing district’s aggregate extension base is limited to the lesser of 5% or the increase in the national Consumer Price Index (CPI) for the year preceding the levy year. The CPI used is for all urban consumers for all items as published by the U.S. Department of Labor, Bureau of Labor Statistics. This limitation can be increased for a taxing body with voter approval. The PTELL allows a taxing district to receive a limited annual increase in tax extensions on existing property, plus an additional amount for new construction. This limit slows the growth of revenues to taxing districts when property values and assessments are increasing faster than the rate of inflation.

Amounts collected in excess of the estimated net receivable for each levy year are reported as revenue in the fiscal year that the tax collections are distributed to CPS. Tax amounts collected in excess of the specified prior years levies are recorded in the year of receipt without impacting receivable and deferred revenue balances. CPS maintains the accounts receivable, reserves for uncollectibles and deferred revenue balance on the general ledger for three tax levy years. All refunds, no matter what tax year they apply, are recorded against the property tax revenue and cash accounts in the period of occurrence or notification from the respective county treasurer.

Legal limitations on tax rates and the rates extended in calendar years 2008 and 2007 are shown below.

	Maximum 2008 Legal Limit	Tax Rates Extended Per \$100 of EAV	
		<u>2008</u>	<u>2007</u>
General Operating Fund:			
Educational	(A)	\$2.376	\$2.078
Workers’ and Unemployment Compensation/Tort Immunity	(B)	.191	.021
Public Building Commission Operations and Maintenance	(B)	.000	.521
Debt Service Fund:			
Public Building Commission Leases Program	(C)	<u>.016</u>	<u>.077</u>
		<u>\$2.583</u>	<u>\$2.697</u>

- A. The maximum legal limit for educational purposes cannot exceed \$4.00 per \$100 of EAV (105 ILCS 5/34-53, and the total amount billed under General Operating Fund is subject to the PTELL as described above.
- B. These tax rates are not limited by law, but are subject to the tax cap as described above.

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

C. The tax cap limitation contained in the PTELL does not apply to the taxes levied by CPS to make its lease payments.

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

	<u>Fund Financial Statements</u>	<u>Government Wide- Financial Statements</u>
Revenues:		
General State Aid Unrestricted	\$ 846,408	\$ 846,408
Supplementary General State Aid	261,000	261,000
General Education Block Grant	166,519	166,519
Educational Services Block Grant	447,442	469,617
Other Restricted State Revenue	124,665	122,838
Total State Aid	<u>\$1,846,034</u>	<u>\$1,866,382</u>
Program Revenues:		
Operating Grants and Contributions		<u>(109,996)</u>
Non-Program General State Aid		<u>\$1,756,386</u>

NOTE 4. CASH DEPOSITS AND INVESTMENTS

Cash and investments held in the name of the CPS are controlled and managed by the CPS' Treasury Department; however, custody is maintained by the Treasurer of the City of Chicago, who is the designated ex-officio Treasurer of the CPS under the Illinois School Code. Custody is not maintained by the Treasurer of the City of Chicago for cash and investments in escrow, and the schools' internal accounts. The cash and investments in escrow in the Debt Service Fund represent the amount available for debt service payments on the Unlimited Tax General Obligation Bonds and PBC Leases. The cash and investments in escrow in the Capital Projects Fund represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, Public Building Commission Building Revenue Bonds, State Technology Revolving Loan Fund and other revenues.

Cash

With the exception of school internal accounts as designated by the Board, the Municipal Code of Chicago requires that cash be deposited only in chartered banks or savings and loan associations that are on the City of Chicago's approved depository listing. The ordinances allow only regularly organized State or national banks insured by the Federal Deposit Insurance Corporation, and Federal and State savings and loan associations insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation located within the City of Chicago, to be designated depositories.

The CPS Investment Policy requires collateral with an aggregate market value of not less than 110% of the original acquisition price, including principal and accrued interest, on depository account balances and certificates of deposit unless the bank meets certain rating requirements and/or asset size. Repurchase agreement collateral shall not be less than 102%. Collateral for the CPS' bank accounts are held by a third-party custodian in the name of the City of Chicago Treasurer for the benefit of the CPS. Collateral shall be only those securities authorized as allowable investments.

As of June 30, 2008, the book amount of the CPS' deposit accounts was \$1.4 million. The bank balances totaled \$34.6 million as of June 30, 2008. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2008. The bank balance was covered by Federal depository insurance and by collateral held by third-party custodians.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Cash and Investments Held in School Internal Accounts, and the corresponding liability, Amounts Held for Student Activities, represent the book balance for checking and investments for individual schools.

Investments

The CPS' investments are authorized under the Illinois Compiled Statutes Finance Investment Act. The CPS' Investment Policy is derived from this Act. The CPS Investment Policy authorizes the CPS to invest in obligations guaranteed by the full faith and credit of the U.S. Government, certificates of deposit constituting direct obligations of banks, commercial paper, money market mutual funds, repurchase agreements that mature within 330 days, certain U.S. Government agency securities, and certain State and municipal securities that are rated at the time of purchase within the two highest classifications established by a nationally recognized rating service. All mutual funds purchased invest in eligible securities outlined in the parameters of the CPS Investment Policy and meet certain other regulatory requirements.

The CPS' Investment Policy contains the following stated objectives:

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

At June 30, 2008, the CPS had the following investments (\$000's) and maturities:

<u>Investment Type</u>	<u>Ratings</u>	<u>Carrying Amount</u>	<u>Maturities Less Than 1 Year</u>	<u>Maturities 1-5 Years</u>
Repurchase Agreements	AAA	\$ 91,933	\$ 91,933	\$ —
U.S. Government Agency Securities	AAA	782,247	158,118	624,129
Commercial Paper	A1 or A1+/P-1	268,687	268,687	—
Money Market Mutual Funds	AAA	972,497	972,497	—
Total Investments		<u>\$2,115,364</u>	<u>\$1,491,235</u>	<u>\$624,129</u>
Cash		<u>1,402</u>		
Total Cash and Investments		<u>\$2,116,766</u>		

Credit Risk — State law and the CPS' Investment Policy limit investment in repurchase agreements, unless registered or inscribed in the name of the Board, to those purchased through banks or trust companies authorized to do business in the State of Illinois. State law and the CPS' Investment Policy limit investment in commercial paper to the top two ratings issued by at least two standard rating services. As of June 30, 2008, CPS' investments in commercial paper were rated A1+ or A1 by Moody's Investment Service and P-1 by Standard and Poor's. As of June 30, 2008, Standard and Poor's rated the CPS' investments in money market mutual funds AAA as required by the CPS' Investment Policy.

Concentration of Credit Risk — As of June 30, 2008 there were no investments in any one issuer that represent 5% or more of the total investments. Investments issued by the U.S. government and investment in mutual funds are excluded from the concentration of credit risk.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Custodial Risk — During the fiscal year ended June 30, 2008, repurchase agreements were supported by collateral with an aggregate market value equal to at least 102% of amounts invested. The collateral consisted of securities that were permissible under the CPS Investment Policy. Third-party custodians held all collateral in CPS' name.

Interest Rate Risk — The CPS' Investment Policy requires maintenance of a two-tiered portfolio which limits the average maturity of the Liquidity Cash Management tier of the portfolio to six months and limits the average maturity of the Enhanced Cash Management tier of the portfolio to five years and limits the maturity of any single issue in the Enhanced Cash Management tier of the portfolio to 10 years.

The following table provides a summary of CPS' total cash and investments as of June 30, 2008 (\$000's):

<u>Fund:</u>	<u>Amount</u>
General Operating Fund	\$1,056,651
Capital Projects Fund.	622,887
Debt Service Fund.	<u>437,228</u>
Total Cash and Investments	<u><u>\$2,116,766</u></u>

NOTE 5. RECEIVABLES

Receivables as of June 30, 2008 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows (\$000's):

	<u>Fund Financial Statements</u>	<u>Government- Wide Financial Statements</u>
Property taxes	\$1,077,762	\$1,077,762
Replacement taxes	32,511	32,511
State aid	518,929	518,929
Federal aid.	223,988	223,988
Other	<u>60,660</u>	<u>60,660</u>
Total Receivables.	\$1,913,850	\$1,913,850
Less: Allowance for uncollectibles — property tax	(68,016)	(68,016)
Less: Allowance for uncollectibles — state aid	(3,842)	(3,842)
Less: Allowance for uncollectibles — other	<u>(2,677)</u>	<u>(2,677)</u>
Total Receivables, net.	<u><u>\$1,839,315</u></u>	<u><u>\$1,839,315</u></u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2008, the components of deferred revenue reported in the fund financial statements are as follows (\$000's):

Deferred property taxes	\$1,009,534
Other deferred revenue	<u>481,416</u>
Total Deferred Revenue	<u><u>\$1,490,950</u></u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows (\$000's):

Government-wide activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases and Transfers to In-service</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 248,713	\$ 12,744	\$ (120)	\$ 261,337
Construction in progress	354,531	340,385	(227,816)	467,100
Total capital assets not being depreciated	<u>\$ 603,244</u>	<u>\$ 353,129</u>	<u>\$(227,936)</u>	<u>\$ 728,437</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 6,051,231	\$ 228,790	\$ (28,181)	\$ 6,251,840
Equipment and administrative software	149,045	15,012	0	164,057
Total capital assets being depreciated	<u>\$ 6,200,276</u>	<u>\$ 243,802</u>	<u>\$ (28,181)</u>	<u>\$ 6,415,897</u>
Total Capital Assets	<u>\$ 6,803,520</u>	<u>\$ 596,931</u>	<u>\$(256,117)</u>	<u>\$ 7,144,334</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(2,274,440)	\$(164,607)	\$ 25,974	\$(2,413,073)
Equipment and administrative software	(41,193)	(6,520)	0	(47,713)
Total accumulated depreciation	<u>\$(2,315,633)</u>	<u>\$(171,127)</u>	<u>\$ 25,974</u>	<u>\$(2,460,786)</u>
Capital Assets, net of depreciation	<u>\$ 4,487,887</u>	<u>\$ 425,804</u>	<u>\$(230,143)</u>	<u>\$ 4,683,548</u>

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

Governmental activities:	
Instruction	\$107,322
Pupil support services	15,100
Administrative support services	8,072
Facilities support services	16,070
Instructional support services	16,987
Food services	7,576
Total Depreciation	<u>\$171,127</u>

Construction Commitments

The CPS had active construction projects as of June 30, 2008. These projects include new construction and renovations of schools. At year-end, the CPS had approximately \$268.6 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

NOTE 7. INTERFUND TRANSFERS AND BALANCES (continued)

General Operating Fund:	
Due from Capital Improvement Program	\$ 66,376
Due to Capital Asset Program	(39,827)
Due to Bond Redemption and Interest Program	<u>(22,014)</u>
Total — Due from other Funds	<u>\$ 4,535</u>
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	\$ 39,827
Capital Improvement Program — Due to General Operating Fund	<u>(66,376)</u>
Total — Due to other Funds	<u>\$(26,549)</u>
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	<u>\$ 22,014</u>

The purpose of interfund balances is to present transactions that are to be repaid between major programs at year end. The balances result from operating transactions between funds and are repaid during the fiscal year within the normal course of business.

Transfers

Effective June 30, 2008, CPS made operating transfers of \$1.5 million from the Public Building Commission Leases Program to the General Operating Fund to transfer interest earnings and operating transfers of \$2.3 million from the Bond Redemption and Interest Program to the General Operating Fund to pay for costs associated with the refunding of certain outstanding bonds.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

The CPS issued the following bonds in fiscal year 2008:

Unlimited Tax General Obligation Bonds (Series 2007A)

In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with \$100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with \$162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund \$262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of \$18,345,000 and \$24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in September 2007, CPS issued \$262,785,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007A) and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. The proceeds from these bonds were used to refund a portion of Series 1997A bonds. As a result of the issuance, net proceeds along with debt service funds on hand and proceeds related to CPS' swaption agreement totaling \$272,428,076 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase \$262,785,000 of the Series 1997A bonds in full on December 1, 2007, and the bonds are considered fully refunded. The debt service on this issuance will

NOTE 8. LONG-TERM DEBT (continued)

be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Replacement Tax revenues.

The following table details the payments to the refunded bond escrow agent (\$000's):

<u>Description</u>	<u>Amount</u>
Net proceeds	\$262,785
CPS deposit.	2,703
Amounts on hand related to refunded debt.	6,940
Total	<u>\$272,428</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9.6 million. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031.

Unlimited Tax General Obligation Bonds (Series 2007BC)

In September 2007, CPS issued \$204,635,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007BC) at a premium of \$10,308,755. The proceeds from these bonds were used to refund a portion of Series 1997 and Series 1997A bonds and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of \$212,793,437 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase \$199,225,000 of the Series 1997A bonds and \$6,700,000 of the Series 1997 on December 1, 2007, and the bonds are considered fully refunded. The debt service on this issuance will be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Replacement Tax revenues.

The following table details the payments to the refunded bond escrow agent (\$000's):

<u>Description</u>	<u>Amount</u>
Net proceeds	\$212,793

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6.9 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025. CPS completed the refunding to reduce its total debt service over the next 17 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$9.7 million.

Unlimited Tax General Obligation Bonds (Series 2007D)

In December 2007, CPS issued \$238,720,000 in Unlimited Tax General Obligation Bonds (Series 2007D) at a premium of \$13,835,224. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of approximately \$250,000,000 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

Debt Restructuring

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued the following refunding bonds to restructure its auction rate debt.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A)

In May 2008, CPS issued \$262,785,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A). The proceeds from these bonds were used to refund the Series 2007A bonds.

NOTE 8. LONG-TERM DEBT (continued)

CPS contributed \$9.5 million to pay for costs of issuance and fund debt service. As a result of the issuance, \$262,976,142 was deposited in a trust with an escrow agent to purchase the Series 2007A bonds upon the next remarketing. On May 16, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Tax revenues.

The following table details the payments to the refunded bond escrow agent (\$000's):

<u>Description</u>	<u>Amount</u>
Net proceeds	\$262,785
Amount on hand related to refunded debt	191
Total	<u>\$262,976</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.3 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B)

In May 2008, CPS issued \$240,975,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B). The proceeds from these bonds were used to refund the Series 2003D bonds. CPS contributed \$0.9 million to pay for costs of issuance and fund debt service. As a result of the issuance, \$241,761,730 was deposited in a trust with an escrow agent to purchase the Series 2003D bonds upon the next remarketing. On May 30, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid from General State Aid revenues.

The following table details the payments to the refunded bond escrow agent (\$000's):

<u>Description</u>	<u>Amount</u>
Net proceeds	\$240,975
Amount on hand related to refunded debt	787
Total	<u>\$241,762</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.1 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2034. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008C)

In May 2008, CPS issued \$464,655,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2008C) at a premium of \$17,082,455. The proceeds from these bonds were used to refund the Series 2003B and Series 2004B bonds. CPS contributed \$4.3 million to the refunded escrow agent and \$2.5 million to pay for cost of issuance and fund debt service. As a result of the issuance, \$484,122,177 was deposited in a trust with an escrow agent to purchase the Series 2003B bonds and the Series 2004B bonds upon the next remarketing. On May 29, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid from General State Aid revenues.

NOTE 8. LONG-TERM DEBT (continued)

The following table details the payments to the refunded bond escrow agent (\$000's):

<u>Description</u>	<u>Amount</u>
Net proceeds	\$479,847
CPS deposit	<u>4,275</u>
Total	<u>\$484,122</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7.2 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2033. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

NOTE 8. LONG-TERM DEBT (continued)

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

Series	Principal Outstanding June 30, 2007	Issuances	Retirements	Principal Outstanding June 30, 2008	Accreted Interest	Principal and Accreted Interest June 30, 2008
2008C	\$ —	\$ 464,655	\$ —	\$ 464,655	\$ —	\$ 464,655
2008B	—	240,975	—	240,975	—	240,975
2008A	—	262,785	—	262,785	—	262,785
2007D	—	238,720	—	238,720	—	238,720
2007BC	—	204,635	—	204,635	—	204,635
2007A	—	262,785	(262,785)	—	—	—
2006B	355,805	—	(2,745)	353,060	—	353,060
2006A	6,853	—	—	6,853	—	6,853
2005DE	319,375	—	(5,890)	313,485	—	313,485
2005B	52,595	—	—	52,595	—	52,595
2005A	193,585	—	—	193,585	—	193,585
2004G	12,500	—	—	12,500	—	12,500
2004E	37,285	—	(3,975)	33,310	—	33,310
2004D	53,030	—	—	53,030	—	53,030
2004C-2	48,910	—	—	48,910	—	48,910
2004C-1	75,410	—	—	75,410	—	75,410
2004B	298,075	—	(298,075)	—	—	—
2004A	205,410	—	—	205,410	—	205,410
2003D	245,525	—	(245,525)	—	—	—
2003C	4,585	—	—	4,585	—	4,585
2003B	183,775	—	(183,775)	—	—	—
2003A	64,125	—	(5,165)	58,960	—	58,960
2002A	47,790	—	(615)	47,175	—	47,175
2001C	28,070	—	(4,120)	23,950	—	23,950
2001B	9,440	—	—	9,440	—	9,440
2001A	5,600	—	(835)	4,765	—	4,765
2000E	13,390	—	—	13,390	—	13,390
2000B,C,D	303,000	—	—	303,000	—	303,000
2000A	16,525	—	—	16,525	—	16,525
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	532,554	—	(1,229)	531,325	177,469	708,794
1998B-1	328,714	—	—	328,714	206,623	535,337
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	(462,010)	37,985	28,872	66,857
1997	71,285	—	(9,970)	61,315	—	61,315
1996	52,650	—	(3,190)	49,460	—	49,460
Total Bonds	\$4,091,856	\$1,674,555	\$(1,489,904)	\$4,276,507	\$412,964	\$4,689,471
Note Payable	3,606	—	(1,090)	2,516	—	2,516
Asbestos Abatement Loans	4,885	—	(1,138)	3,747	—	3,747
Total Long-Term Debt	<u>\$4,100,347</u>	<u>\$1,674,555</u>	<u>\$(1,492,132)</u>	<u>\$4,282,770</u>	<u>\$412,964</u>	<u>\$4,695,734</u>
Less Current Portion						(53,555)
Deferred Amounts:						
On Refunding						(100,160)
For Net Premium/(Discount)						105,882
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						<u>\$4,647,901</u>

NOTE 8. LONG-TERM DEBT (continued)

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

Bonds	\$(55,010)
Note Payable	(1,198)
Asbestos Abatement Loans	(1,037)
Accreted Interest	(1,215)
Refunding	<u>4,905</u>
Subtotal	\$(53,555)
Lease obligations	<u>(25,480)</u>
Total Current Portion.	<u><u>\$(79,035)</u></u>

The Unlimited Tax General Obligation Bonds are being repaid in the Debt Service Fund from Replacement Tax revenue, revenue from Intergovernmental Agreements with the City of Chicago, and General State Aid to the extent possible, and then from a separate tax levy associated with the bonds.

Defeased Debt

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at June 30, 2008 are as follows (\$000's):

<u>Description</u>	<u>Amount Defeased</u>	<u>Amount Outstanding</u>
Unlimited Tax General Obligation Bonds Series 2005C	53,750	53,750
Unlimited Tax General Obligation Bonds Series 2004H	18,500	18,500
Unlimited Tax General Obligation Bonds Series 2004F	25,000	25,000
Unlimited Tax General Obligation Bonds Series 2001C	174,575	174,575
Unlimited Tax General Obligation Bonds Series 2001A	35,810	35,810
Unlimited Tax General Obligation Bonds Series 2000A	<u>90,435</u>	<u>90,435</u>
Total	<u><u>\$398,070</u></u>	<u><u>\$398,070</u></u>

Future debt and associated swap payments (see Note 10). Interest rates on fixed rate bonds range from 2.5% to 6.75%, except that CPS does not pay or accrue interest on the Series 2006A Bonds, Series 2003C Bonds, the Series 2001B Bonds, the Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own these bonds will be entitled to a credit against taxable income. Interest rates on variable rate bonds and net swap payments assume the debt service deposit requirement rate and that auction rates as of June 30, 2008 remain the same throughout their term. Debt service requirements for the Unlimited Tax General Obligation Bonds and net swap payments are scheduled as follows (\$000's):

NOTE 8. LONG-TERM DEBT (continued)

Fiscal Year(s)	Fixed Rate Bonds		Variable Rate Bonds			Total
	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	
2009	\$ 39,865	\$ 114,168	\$ 15,145	\$ 50,744	\$ 26,539	\$ 246,461
2010	92,607	137,116	19,490	50,106	26,315	325,634
2011	93,087	136,606	21,135	49,239	26,080	326,147
2012	111,816	130,539	22,105	48,372	25,834	338,666
2013	90,643	132,235	23,275	47,314	25,577	319,044
2014-2018	543,145	645,757	140,540	221,839	123,445	1,674,726
2019-2023	723,962	621,563	196,915	188,640	114,867	1,845,947
2024-2028	756,898	516,509	371,205	137,404	95,349	1,877,365
2029-2033	411,644	604,121	428,750	52,588	37,616	1,534,719
2034-2037	81,935	8,057	92,345	4,482	3,557	190,376
Total	<u>\$2,945,602</u>	<u>\$3,046,671</u>	<u>\$1,330,905</u>	<u>\$850,728</u>	<u>\$505,179</u>	<u>\$8,679,085</u>

* Interest on Series 2000B,C,D variable rate demand notes was calculated at an assumed rate of 6% per annum and interest on Series 2003D unhedged auction rate bonds was calculated at an assumed rate of 5% per annum. Interest on Series 2004CDE and unhedged Series 2005DE variable rate demand notes calculated at an assumed rate of 4.5% per annum (equal annual debt service deposit requirements). Interest on hedged auction rate securities and variable rate demand notes assumes current interest rates remain the same as of June 30, 2008 and was calculated as follows:

- Series 2000C — 1.530%
- Series 2004C — 1.825%
- Series 2005DE — 7.600%
- Series 2008A — 2.900%
- Series 2008B — 2.900%

** Series 2000C computed: (3.823% – 1.724%) x Outstanding Principal
 Series 2004C computed: (3.825% – 1.724%) x Outstanding Principal
 Series 2005DE computed: (3.662% – 1.724%) x Outstanding Principal
 Series 2008A computed: (5.25% – 2.00375%) x Outstanding Principal
 Series 2008B computed: (3.771% – 1.724%) x Outstanding Principal

Variable rate bonds are demand obligations that allow bondholders to demand repayment on a weekly basis. The \$303,000,000 Series 2000BCD bonds and \$130,000,000 Series 2005E bonds are supported by Standby Bond Purchase Agreements with Dexia Credit Locale which expire on December 8, 2012. Under the Standby Bond Purchase Agreements, any bonds put to the bank would incur an interest rate equal to the Prime Rate as listed in the Wall Street Journal through December 8, 2012, at the Prime Rate plus 1.0% thereafter, and at the Prime Rate plus 2.0% in the event of a default, but in no case may the rate exceed 15%. The commitment fee is 0.125% per annum for the Series 2000BCD bonds and at June 30, 2008 there were no bonds drawn under the Standby Bond Purchase Agreement. The commitment fee is 0.11% per annum for the Series 2005E bonds and at June 30, 2008 there were \$79,500,000 bonds drawn under the Standby Bond Purchase Agreement.

The \$210,660,000 Series 2004CDE and \$183,485,000 Series 2005D bonds are supported by Standby Bond Purchase Agreements with Depfa Bank PLC which expire on December 8, 2012. Under the 2004CDE Standby Bond Purchase Agreement, any bonds put to the bank would incur an interest rate equal to the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5% for the first 90 days, at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.0% for the 91st day and thereafter,

NOTE 8. LONG-TERM DEBT (continued)

and at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 3.0% in the event of a default, but in no case may the rate exceed 15%. Under the 2005D Standby Bond Purchase Agreement, any bonds put to the bank would incur an interest rate equal to the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5% for the first 90 days, at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.0% for the 91st day through the date 10 years prior to maturity, and thereafter at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.5%, and at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 3.0% in the event of a default, but in no case may the rate exceed 15%. The commitment fee is 0.11% per annum for the Series 2004CDE and Series 2005D bonds and at June 30, 2008 there were no bonds drawn under the Standby Bond Purchase Agreements.

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

<u>Series</u>	<u>Accreted Interest June 30, 2007</u>	<u>Increase</u>	<u>Payment</u>	<u>Accreted Interest June 30, 2008</u>
1997A.....	\$ 25,393	\$ 3,479	\$ —	\$ 28,872
1998B-1	180,300	26,323	—	206,623
1999A.....	154,810	23,215	(556)	177,469
	<u>\$360,503</u>	<u>\$53,017</u>	<u>\$(556)</u>	<u>\$412,964</u>

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

NOTE 9. LEASE OBLIGATIONS

Capitalized Leases

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

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

In 2006, CPS entered into \$3.7 million lease with an option to purchase with the Teachers Academy of Math and Science. The term of the lease commenced October 1, 2005 and shall end February 1, 2021. This end date represents the maturity date of bonds issued for the premises by the Illinois Development Finance Authority Bonds. Debt service includes principal and interest and all other costs associated with these bonds. Additionally, CPS will assume all operating costs and personnel costs of the premises.

The future PBC lease rentals and other capitalized leases due at June 30, 2008, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Other</u>	<u>Total</u>
2009	\$ 51,838	\$ 424	\$ 52,262
2010	51,830	424	52,254
2011	51,874	424	52,298
2012	51,926	424	52,350
2013	51,963	424	52,387
2014-2018	260,100	2,118	262,218
2019-2021	82,730	1,143	83,873
Total Rentals	\$ 602,261	\$ 5,381	\$ 607,642
Less — Interest and other costs	(190,571)	(2,756)	(193,327)
Principal amount of rental due	<u>\$ 411,690</u>	<u>\$ 2,625</u>	<u>\$ 414,315</u>

Following is a summary of changes in PBC leases and other capitalized leases outstanding (\$000's):

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
PBC Leases	\$435,535	\$—	\$(23,845)	\$411,690
Other Capitalized Leases	2,800	—	(175)	2,625
	<u>\$438,335</u>	<u>\$—</u>	<u>\$(24,020)</u>	<u>\$414,315</u>
Less: Current Portion PBC Leases				(25,305)
Current Portion Other Capitalized Leases				(175)
Total Long-Term Leases Outstanding				<u>\$388,835</u>

Operating Leases

CPS is a lessee in numerous operating leases associated with the rental of trucks, automobiles, various office equipment and real property. The lease arrangements are both cancelable and non-cancelable with some having structured rent increases. None of the operating leases are considered to be contingent leases.

NOTE 9. LEASE OBLIGATIONS (continued)

Total expenditures for operating leases for the fiscal year ending June 30, 2008 were \$8.2 million. Following is a summary of operating lease commitments as of June 30, 2008 (000's):

<u>Fiscal Year(s)</u>	<u>Non-Real property leases</u>	<u>Real Property leases</u>	<u>Total</u>
2009	\$ 9,514	\$10,078	\$ 19,592
2010	7,173	9,403	16,576
2011	4,102	9,489	13,591
2012	2,266	8,792	11,058
2013	9	8,976	8,985
2014-2018	—	24,190	24,190
2019-2023	—	9,921	9,921
2024	—	94	94
Total Operating Lease Commitments	<u>\$23,064</u>	<u>\$80,943</u>	<u>\$104,007</u>

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

During fiscal year 2008, CPS terminated six swap agreements in the notional amount of \$965,275,000. The termination amounts were determined by negotiated and market quotation methods which resulted in a \$20.5 million payment to the counterparties.

Series 2008A

Swap Objective. In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with \$100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with \$162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund \$262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of \$18,345,000 and \$24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. In May 2008, CPS refunded the Series 2007A auction rate bonds. In May 2008, CPS refunded the Series 2007A auction rate bonds with Series 2008A private placement variable rate bonds (262 million). The swaps associated with Series 2007A were transferred to Series 2008A, with the intention of preserving a maximum amount of upfront savings.

Swap terms. The bonds and the related swap agreements mature on December 1, 2030, and the total notional amount of the swaps equals the \$262,785,000 of the Series 2008A bonds. Starting in fiscal year 2025, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 5.25% and receives a variable payment computed at the 70% of the London Interbank Offered Rate (LIBOR) plus 0.28% from Bank of America and Royal Bank of Canada through December 1, 2030.

Fair value. CPS received upfront payments for the options on the swaptions in the amount of \$43,270,000 during fiscal year 2006 and 2007. Because CPS received an upfront payment and the fixed payments are higher than current market, the swap has negative fair value. The fair value was

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

determined by market prices quoted by Deriv Activ, and independent derivative valuation company who specializes in daily market to market derivative valuations, as of June 30, 2008, see table below:

Swap Counterparty Data as of June 30, 2008

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Bank of America	\$100,000,000	Aaa	AA+	\$(21,117,511)
Royal Bank of Canada	162,785,000	Aaa	AA-	(32,159,709)
Total	<u>\$262,785,000</u>			<u>\$(53,277,220)</u>

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+" / "A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk. CPS' issuance of the 2008A bonds resulted in an expected synthetic interest rate of 5.85%. The swaps expose CPS to basis risk should the rate paid on the variable rate securities be more than .60% higher than the 70% of LIBOR rate plus .28% received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the expected synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average rate paid on the bonds was 2.90% and 70% of LIBOR plus 0.28% was 2.00375%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS' credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2008A bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2008B

Swap Objective. CPS entered into two interest rate swaps associated with the issuance of the Series 2003D bonds in December 2003 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. During fiscal year 2008, CPS refunded the Series 2003D auction rate bonds with Series 2008B private placement variable rate bonds (\$240 million). The swaps associated with Series 2003D were transferred to Series 2008B. The intention of transferring the swaps was to effectively change the variable interest rate to a fixed interest rate of 3.771% plus 0.88%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2034, and the total notional amount of the swaps equals the \$185,350,000 of Series 2008B private placement bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 3.771% and receives a variable payment computed at 70% of the LIBOR through March 1, 2034.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Fair value. As of June 30, 2008, the swaps have a negative fair value as a result of long-term interest rates decrease since the execution of the swap. Because the coupons on CPS' variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by DerivActiv, and independent derivative valuation company who specializes in daily market to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A-" / "A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Lehman Brothers	\$ 95,350,000	A1	A+; stable	\$(5,015,830)
Goldman Sachs	90,000,000	A1	A+; stable	(4,734,395)
Total	<u>\$185,350,000</u>			<u>\$(9,750,225)</u>

Basis risk. CPS' issuance of the 2008B bonds resulted in an expected synthetic interest rate of 4.651%. The swaps expose CPS to basis risk should the rate paid on the variable auction rate securities be more than the .88% higher than the 70% of LIBOR rate received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the expected synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average auction rate paid on the bondholders was 2.90% and 70% of LIBOR was 1.72375.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS' credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2008B bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2005A

Swap Objective. In October 2005 CPS entered into two interest rate swaps associated with the Series 2005A bonds as a means of lowering its borrowing costs. The intention of entering into the swaps was to effectively change the interest rate on the fixed rate bonds from the stated coupon on the bonds to a lower rate.

Swap terms. The bonds and the related swap agreements mature on December 1, 2031, and the total notional amount of the swaps equals the \$193,585,000 of Series 2005A fixed rate bonds. Starting in fiscal year 2014, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays one counterparty a variable payment computed at the Securities Industry and Financial Markets Association Municipal Swap Index Rate (SIFMA) rate and receives a

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

variable payment computed at 70% of the London Interbank Offered Rate (LIBOR) plus 52.4 basis points. For the second swap, CPS pays the counterparty a variable payment computed at the SIFMA rate and receives a variable payment computed at 80.764% of LIBOR.

Fair value. As of June 30, 2008, the swaps have a positive fair value as a result of long term interest rates falling since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+" / "A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Loop Financial	\$116,151,000	Aa1	AA	\$1,427,160
Merrill Lynch	77,434,000	A1	A	810,767
Total	<u>\$193,585,000</u>			<u>\$2,237,927</u>

Basis risk. The swaps expose CPS to basis risk should the relationship between LIBOR and SIFMA converge. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the stated coupon on the bonds, and therefore the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 1.55%. As of June 30, 2008, the rate received by one counterparty was 2.25% (70% of LIBOR + 52.4 basis points) and was 1.989% from the other (80.764% of LIBOR), effectively lowering the stated coupon on the bonds by a weighted average of 0.594%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS' credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2005A bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2005DE

Swap Objective. CPS entered into an interest rate swap associated with the issuance of the Series 2005DE bonds in December 2005 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of entering into the swap was to effectively change the variable interest rate on the bonds to a fixed interest rate of 3.6617%.

Swap terms. The bonds and the related swap agreement mature on March 1, 2036, and the total notional amount of the swaps equals the \$287,055,000 of Series 2005DE variable rate bonds. Starting in fiscal year

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

2013, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays the counterparty a fixed payment of 3.6617% and receives a variable payment computed at 70% of the LIBOR.

Fair value. As of June 30, 2008, the swap has a negative fair value as a result of long-term interest rates decreasing since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, and independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+" / "A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Loop Financial	\$287,055,000	Aa1	AA	\$(11,276,572)

Basis risk. The swaps expose CPS to basis risk should the rate paid on the variable rate debt be higher than the 70% of the LIBOR rate received from the swap counterparty. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.6617% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average variable rate was 3.836% and 70% of LIBOR was 1.724%. To mitigate the potential for basis risk, CPS' annual debt service fund deposit is calculated at a rate of 3.7817%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS' credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2005DE bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2000C and Series 2004C

Swap Objective. In February 2007, CPS entered into interest rate swaps associated with Series 2000C and Series 2004C bonds with Royal Bank of Canada. The intention of entering into the swaps was to effectively change the variable interest rate on the bonds to a fixed interest rate of 3.823% for Series 2000C and 3.825% for Series 2004C.

Series 2000C Swap terms. The bonds and the related swap agreement mature on March 1, 2032, and the total notional amount of the swaps equals the \$61,100,000. Starting in fiscal year 2024, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays the counterparty a fixed payment of 3.823% and receives a variable payment computed at 70% of the LIBOR.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Series 2004C Swap terms. The bonds and the related swap agreement mature on March 1, 2035, and the total notional amount of the swaps equals the \$124,320,000. Starting in fiscal year 2024, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays the counterparty a fixed payment of 3.825% and receives a variable payment computed at 70% of LIBOR.

Fair value. As of June 30, 2008, the swap has a negative fair value as a result of long term interest rates decreasing since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, and independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

<u>Counterparty</u>	<u>Swaption Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Royal Bank of Canada	\$ 61,100,000	Aaa	AA-	\$ (3,637,171)
Royal Bank of Canada	124,320,000	Aaa	AA-	(7,534,363)
Total	<u>\$185,420,000</u>			<u>\$(11,171,534)</u>

Basis risk. The swaps expose CPS to basis risk should the rate paid on the variable rate debt be higher than the 70% of LIBOR rate received from the swap counterparty. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.6617% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average variable rate was 1.53% for Series 2000C bonds and 1.825% Series 2004C bonds and 70% of LIBOR was 1.724%. To mitigate the potential for basis risk, CPS' annual debt service fund deposit is calculated at a rate of 3.817%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS' credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2000C and 2004C bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

NOTE 11. OTHER LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>
Accrued Sick Pay Benefits	\$214,883	\$127,269	\$(73,107)	\$269,045
Accrued Vacation Pay Benefits	39,359	38,997	(4,466)	73,890
Accrued Workers' Compensation Claims	75,414	28,768	(17,364)	86,818
Accrued General and Automobile Claims	10,184	682	(717)	10,149
Tort Liabilities and Other Claims	<u>4,150</u>	<u>—</u>	<u>(2,750)</u>	<u>1,400</u>
Total	<u>\$343,990</u>	<u>\$195,716</u>	<u>\$(98,404)</u>	<u>\$441,302</u>
Less: Current Portion of Accrued Sick Pay Benefits				(59,539)
Less: Current Portion of Accrued Vacation Pay Benefits				<u>(6,875)</u>
Total Other Long-term Liabilities				<u>\$374,888</u>

Sick Pay Benefits

CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 315 days. If an employee either reaches age 65; has a minimum of 20 years of service at the time of resignation or retirement, or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to 10 years of service; 53 days for those with 10 to 20 years of service; and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate. These amounts will be liquidated from the General Operating Fund.

Accrued Workers' Compensation, General and Automobile and Tort Liabilities and Other Claims

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

The CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of \$200,000,000 and Boiler & Machinery Insurance with limits of \$100,000,000 with the following deductibles:

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

During fiscal years 2008, 2007 and 2006 no settlements were made in excess of the self-insured amount and there has been no significant reduction in insurance coverage over the past three fiscal years.

The CPS maintains commercial excess liability insurance with limits of \$75,000,000 in excess of a \$10,000,000 self-insured retention per loss for claims arising from: General Liability; Automotive Liability; Employers Liability; and Wrongful Acts.

As discussed in Note 15, there are pending workers' compensation and tort claims involving the CPS which have arisen out of the ordinary conduct of business. The CPS budgets an amount each year in the

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

The CPS' estimate of liabilities for workers' compensation claims, general and automobile claims and tort is based on reserves established by the respective trial attorneys or the claims administrators. The CPS accrues for the estimated workers' compensation, general and automobile claims and tort claims in the General Operating Fund where there is a likelihood that an unfavorable outcome is probable and that expenditures will be liquidated with expendable available financial resources.

The CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis). A liability of \$48.5 million has been recorded for health insurance costs as a part of accrued payroll in the General Operating Fund, which includes \$29.1 million for estimated medical claims incurred but not reported as of June 30, 2008. Following is the activity related to medical claims for which the CPS is self-insured (\$000's):

<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>\$49,012</u>	<u>\$263,695</u>	<u>\$(257,066)</u>	<u>\$55,641</u>	<u>\$273,403</u>	<u>\$(280,580)</u>	<u>\$48,464</u>

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension — Certified Teachers and Administrators

Pension benefits for certified teachers and administrators are provided under a defined benefit cost-sharing multiple employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") in which the CPS is the sole employer. There are no assets of the CPS included in the Pension Fund. Copies of the Pension Fund Annual Report are available by contacting the Public School Teachers' Pension & Retirement Fund of Chicago, 203 North LaSalle Street, Chicago, Illinois 60601.

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2007, the most recent report, there were 32,968 active participants in the Pension Fund, substantially all of who were employees of the CPS.

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

Participating members contribute 9% of salary, allocated as follows: 7.5% for retirement pension, 0.5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 2008, as in previous fiscal years, the CPS paid a portion (7% — \$125.4 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

The CPS' employer-required contributions, with the exception of contributions from Federal funds, are not actuarially determined. State law requires statutorily determined CPS employer contributions. The CPS'

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

employer contributions towards the cost of retirement benefits, and their related sources of funding, are as follows (\$000's):

Retirement benefit contribution:

A contribution from the State of Illinois	\$ 75,218
A contribution to increase funded ratio to 90%	131,455
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	<u>18,461</u>
Total contributions.	<u>\$225,134</u>

For the fiscal year ended June 30, 2008, employee contributions are \$161.2 million which is 9% of covered payroll. Employer contributions for the year are \$225.1 million which is approximately 5% of covered payroll.

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

The governmental fund financial statements reflect expenditures on both a functional and budgetary account basis. Teachers' pension expenditures reflected on the budgetary account basis include both the CPS' employer share of pension expenditures of \$225.1 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of \$125.4 million, which total \$350.5 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the Federal grants, are reflected in the same functional classifications as the teachers' salaries.

The government-wide financial statements reflect pension expense representing the change in net pension obligation.

The CPS' annual pension costs for fiscal years 2008, 2007 and 2006 are as follows (\$000's):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual required contribution (ARC)	\$ 290,073	\$ 370,210	\$ 328,366
Interest on Net Pension Obligation (NPO)	140,114	121,042	100,492
Adjustment to annual required contribution	<u>(99,133)</u>	<u>(85,639)</u>	<u>(61,849)</u>
Annual Pension Cost (APC) for the fiscal year ended			
June 30, 2008	\$ 331,054	\$ 405,613	\$ 367,009
Less: Contributions made	<u>(225,134)</u>	<u>(167,209)</u>	<u>(110,132)</u>
Increase in NPO	\$ 105,920	\$ 238,404	\$ 256,877
Add NPO, beginning of year	<u>1,751,427</u>	<u>1,513,023</u>	<u>1,256,146</u>
NPO, end of year	<u>\$1,857,347</u>	<u>\$1,751,427</u>	<u>\$1,513,023</u>

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 4% per year
Inflation	3%

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At June 30, 2007, 2006 and 2005 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows (\$000's):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial value of assets	\$ 11,759,699	\$ 10,947,998	\$ 10,506,471
Less: Actuarial Accrued Liability (AAL)	<u>(14,677,184)</u>	<u>(14,035,627)</u>	<u>(13,295,876)</u>
AAL unfunded (liability) / surplus	<u>\$ (2,917,485)</u>	<u>\$ (3,087,629)</u>	<u>\$ (2,789,405)</u>
Funded ratio	80.1%	78.0%	79.0%
Covered payroll	\$ 1,863,182	\$ 1,944,358	\$ 1,968,612
Unfunded AAL as a percentage of covered payroll . . .	156.6%	158.8%	141.7%

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost	\$ 331,054	\$ 405,613	\$ 367,009
Percentage of annual pension cost contributed	68.0%	41.2%	30.0%
Net Pension Obligation	\$1,857,347	\$1,751,427	\$1,513,023

In the opinion of the CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by the CPS; however, the CPS is required to provide funding in addition to amounts provided from Federal and State sources if the funded ratio drops below 90%. CPS contributed \$131.5 million in fiscal year 2008 to increase the funded ratio to 90% and will make an additional General Operating Fund appropriation of \$188.2 million for the fiscal year ended June 30, 2009.

During fiscal year 2008, approximately 96 teachers participated in CPS' early retirement incentive program. The accrued pension cost of \$3 million was recorded in the fund financial statements.

Pension — Other Personnel

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

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

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

Covered employees are required by Article 8, Chapter 40 of the Illinois Compiled Statutes to contribute a percentage of their salary (8.5%). In fiscal year 2008, as in previous fiscal years, CPS agreed to pay a portion (7% — \$35.7 million) of the required employees' contribution for most employees. CPS also receives a portion of the cost of providing pension benefits from grants by the Federal government for career service employees paid from certain Federally-funded programs. In fiscal year 2008, the career service pension expenditure reflected in the fund financial statements is \$91.1 million; of this amount \$89.8 million is reflected in the General Operating Fund and \$1.3 million in the Capital Projects Fund. This total career service pension expenditure is composed of \$35.7 million which represents the required employees' contribution paid by CPS on behalf of its employees; \$50 million contributed by the City of

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Chicago through its specific tax levies for pension plans and the remaining \$5.4 million funded under Federally-funded programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund and the Capital Projects Fund.

Career service pension expense in the government-wide financial statements is \$91.1 million.

As of December 31, 2007, the date of the latest available report, the Annuity Fund had net assets of approximately \$7 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately \$3.3 billion. The CPS employs approximately 17,990 of the 34,885 active participants in the Annuity Fund. The CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund.

Other Postemployment Benefits (OPEB)

Healthcare benefits for certified teachers and administrators are provided under a multiple employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund"). There are no assets of the CPS included in the Pension Fund. The initial actuarial analysis is contained in a stand alone report that was commissioned by CPS and is available by contacting Chicago Public Schools, 125 South Clark Street, Chicago, Illinois 60603. Subsequent analyses will be contained within the Pension Fund Annual Report and will be available by contacting the Public School Teachers' Pension & Retirement Fund of Chicago, 203 North LaSalle Street, Chicago, Illinois 60601.

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 70% of the individual member's cost for fiscal years 2007 and 2006. In accordance with Illinois Compiled Statutes (ILCS) Article 40 Chapter 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not exceed \$65 million plus any previous year amounts authorized but not yet expended. The statutory threshold, however, does not fall under the definition of a funding cap as set forth in GASBS 45. The Pension Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy. As of June 30, 2007, the most recent available data, there were 14,169 active participants in the Chicago Teachers' Pension Fund Retiree Health Insurance Program.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The CPS' annual OPEB costs for fiscal year 2008, 2007 and 2006 are as follows (\$000's):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total actuarial valuation as of June 30, 2007, June 30, 2006 and June 30, 2005	\$(2,022,008)	\$(2,373,774)	\$(2,825,543)
Total OPEB assets of the Teacher Pension Fund	<u>47,402</u>	<u>41,058</u>	<u>89,763</u>
Unfunded actuarial liability	<u>\$(1,974,606)</u>	<u>\$(2,332,716)</u>	<u>\$(2,735,780)</u>
Annual amount to amortize unfunded liability over 30 years as a level percent of payroll	\$ 77,055	\$ 91,029	\$ 106,758
Normal cost	<u>72,978</u>	<u>118,417</u>	<u>106,558</u>
Annual required contribution	\$ 150,033	\$ 209,446	\$ 213,316
Interest on net OPEB obligation	21,255	10,666	N/a
Adjustment to annual required contribution	<u>(16,589)</u>	<u>(8,324)</u>	<u>N/a</u>
Annual OPEB cost for the fiscal year ended June 30, 2007	\$ 154,699	\$ 211,788	\$ 213,316
Less: Contributions made	<u>—</u>	<u>—</u>	<u>—</u>
Increase in OPEB	\$ 154,699	\$ 211,788	\$ 213,316
Add OPEB, beginning of year	\$ 425,104	\$ 213,316	<u>—</u>
OPEB, end of year	<u>\$ 579,803</u>	<u>\$ 425,104</u>	<u>\$ 213,316</u>

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	5%
Medical trend rate	5%
Inflation	3%

Other Personnel

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2008.

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY

In 1979, the CPS was unable to continue normal operations because of a severe cash shortage. As a result, the Chicago School Finance Authority (the "Authority") was created in January 1980 to exercise oversight and control over the financial affairs of the CPS.

The amount of Authority bonds outstanding at June 30, 2008, net of bonds advance refunded or defeased is \$66,645,000 which is payable in fiscal year 2009. The Authority's bonds are not a direct or contingent obligation of the CPS.

The Authority is a separate body politic and corporate and a unit of local government with the power to levy property taxes. The Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. The Authority had various financial oversight powers related to the CPS until June 30, 1995. Public Act 93-0488 suspended the powers of the Authority until 2010.

NOTE 14. FUND BALANCE RESERVATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Reservation

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

<u>Purpose</u>	<u>Reserved Amount</u>
Workers' Compensation/Tort Immunity	\$ 56,610
Supplementary General State Aid	<u>46,085</u>
Total	<u>\$102,695</u>

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2008 Supplementary General State Aid allocation.

In its fiscal year 2008 budget, CPS appropriated in its General Operating Fund \$36 million of fund balances from amounts reserved for specific purposes and \$73 million of general fund balance.

In its fiscal year 2009 budget, CPS appropriated in its General Operating Fund \$45.2 million of fund balances from amounts reserved for specific purposes and \$100 million of general fund balance.

In its fiscal year 2008 budget, CPS designated \$233.2 million to provide working capital. In its fiscal year 2009 budget, CPS has designated \$258 million to provide working capital.

During fiscal year 2008, the Board reserved \$272.4 million for Debt Service of which \$236.1 million was allocated to the Bond Redemption and Interest Program and the remaining \$36.3 million was allocated to the Public Building Commission Leases Program.

b. Net Assets Restrictions

The government-wide statement of net assets reports \$550.2 million of restricted net assets, of which \$445.7 is restricted for Debt service, \$1.8 million is restricted for Donations and \$102.7 is restricted by Enabling legislation.

NOTE 15. LITIGATION AND CONTINGENCIES

a. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2008, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2008.

b. Asbestos and Lead Abatement

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

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

c. Wrongful Death Claim

Deena Samuels v Board of Education of the City of Chicago, et. is both a survivor action and a wrongful death claim lawsuit on behalf of Aniya Bowers. On March 17, 2005 Deena Samuels, a CPS employee, fell on a wet floor in the cafeteria of Oscar DePriest Elementary School. She was pregnant at the time. She gave birth to Aniya Bowers, who died on April 27, 2005. The Board’s custodians were responsible for cleaning the area near where Ms. Samuels fell. The key issue at trial will be whether Ms. Samuels’ fall caused Aniya’s premature birth and death. A finding of liability on the part of CPS cannot be predicted as either probable or remote at this juncture.

d. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers’ compensation, torts, property tax objections, and other matters, arising out of CPS’ ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2008, in excess of related insurance coverage with respect to certain claims, are not determinable at this time. In the opinion of CPS management and legal counsel, the final resolution of these claims and legal actions will not be material to CPS’ financial statements as of June 30, 2008.

NOTE 16. CHANGE IN ACCOUNTING METHOD

In 2007 and prior years, CPS’ policy considered non-exchange transactions such as State Aid, Federal Aid and Replacement tax revenues, to be available and susceptible to accrual if collected within 90 days of the fiscal year end for fund financial statements. During fiscal year 2008 CPS retrospectively changed its method to consider these revenues to be available and susceptible to accrual if collected within 30 days after the year end. This change is consistent with CPS’ current property tax revenue recognition policy.

The fund balances for the years ended June 30, 2006 and June 30, 2007 have been retrospectively adjusted for this change and are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Fund Balances				
June 30, 2006 as previously reported	\$ 495,897	\$504,984	\$353,267	\$1,354,148
Change in accounting policy	<u>(112,084)</u>	<u>—</u>	<u>—</u>	<u>(112,084)</u>
Fund Balances, as restated	<u>\$ 383,813</u>	<u>\$504,984</u>	<u>\$353,267</u>	<u>\$1,242,064</u>
June 30, 2007 as previously reported	\$ 633,936	\$680,513	\$423,347	\$1,737,796
Change in accounting policy	<u>(159,153)</u>	<u>(312)</u>	<u>—</u>	<u>(159,465)</u>
Fund Balances, as restated	<u>\$ 474,783</u>	<u>\$680,201</u>	<u>\$423,347</u>	<u>\$1,578,331</u>

NOTE 17. SUBSEQUENT EVENTS

Unlimited Tax General Obligation Refunding Bonds (Series 2005DE, Series 2004CDE, Series 2000BCD) variable rate demand obligations

In August 2008, CPS substituted insurance on \$195,000,000 outstanding Unlimited Tax General Obligation Bonds (Series 2005D) as a result of the initial insurer, CIFG, being downgraded below investment grade by both Fitch and Moody’s. CIFG was replaced with Assured Guaranty. Cost of issuance of \$1.1 million for the substitution were paid from CPS’ funds.

NOTE 17. SUBSEQUENT EVENTS (continued)

Also in August 2008, Standard & Poor's downgraded CFIG below investment grade, which resulted in an immediate termination of CPS' Standby Bond Purchase Agreement with Dexia Credit Local for \$130,000,000 outstanding Unlimited Tax General Obligation Bonds (Series 2005E). Under the terms of the Series 2005E trust indenture, CPS is required to diligently pursue corrective action within a sixty (60) day period, which action it is currently pursuing. Currently \$79,500,000 bonds are bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 6.25% for bank bonds and 9.0% for remarketed bonds.

In September 2008, related to the impact of the global liquidity crisis, Depfa Bank PLC, liquidity provider for the Series 2005D bonds, was downgraded by Standard & Poor's to BBB+ from A, by Moody's to A2 from Aa3 and by Fitch to A- from AA-. Subsequently in October 2008, \$153,485,000 of the Series 2005D bonds were unable to be remarketed and are currently bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 4.0% and 6.25% for remarketed bonds.

Also in October 2008, \$198,280,000 of the \$210,660,000 outstanding Series 2004CDE bonds with Depfa Bank PLC as liquidity provider were unable to be remarketed and are currently bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 4.5% for bank bonds and 8.0% - 9.0% for remarketed bonds.

In September 2008, related to the impact of the global liquidity crisis, Dexia Credit Local, liquidity provider for the Series 2000 BCD bonds, was downgraded by Standard & Poor's to AA- from AA. In October 2008 Dexia Credit Local was downgraded by Moody's to Aa3 from Aa1, by Fitch to AA- from AA+, and again by Standard & Poor's to A+ from AA-. Consequently, \$89,850,000 of the Series 2000D bonds were unable to be remarketed and became bank bonds under the Standby Bond Purchase Agreement resulting in interest rates of 4.0% for bank bonds and 3.75 — 5.5% for remarketed bonds. In November 2008, \$20,000,000 of the Series 2000D bank bonds were remarketed at a rate of 5.5%.

Unlimited Tax General Obligation Bonds (Series 1996, 1999A and 2008B)

In September 2008, Lehman Brothers Holding Inc. filed for bankruptcy. Lehman Brothers is counterparty to two agreements with CPS. Lehman Brothers Inc. provided a guaranteed investment contract for debt service funds associated with the Series 1996 and 1999A bonds at a rate of 7.27%. Collateral posted by Lehman related to the agreement was liquidated in October 2008, in excess of the principal amount invested. CPS anticipates filing a bankruptcy claim for interest owed under the agreement.

Lehman Brothers Special Financing Inc. ("LBSFI") is counterparty to an interest rate swap agreement associated with the series 2008B bonds. The current mark-to-market valuation of the swap is in favor of LBSFI. CPS is not required to post collateral related to the agreement or make a termination payment as a result of the bankruptcy. As a result of the bankruptcy proceedings, Lehman Brothers Inc. may assume or reject the swap contract by December 18, 2008. CPS does not anticipate making a termination payment in either case.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions Of Certain Terms

“Accountable Event of Loss of Qualified School Construction Bond Status” means (i) any act or any failure to act on the part of the Board constituting a breach of a covenant or agreement of the Board contained in the Indenture or the Tax Agreement, which causes the Bonds to lose their status, or fail to qualify, as “qualified school construction bonds” within the meaning of Section 54F of the Code, or (ii) the making by the Board of any representation contained in the Indenture, the Tax Agreement or the Bonds, as applicable, which was untrue when made and the untruth of which representation at such time causes the Bonds to lose their status, or fail to qualify, as “qualified school construction bonds” within the meaning of Section 54F of the Code.

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

“Additional Bonds” means any alternate bonds issued in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged State Aid Revenues with the Bonds as authorized by the Indenture.

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

“Annual Sinking Fund Payment” means, with respect to each year, the required deposit to the Principal Sub-Account determined pursuant to the Indenture.

“Authorized Denomination” means (i) with respect to Bonds and Principal Strip Certificates thereof, \$40,000 or any integral multiple thereof; (ii) with respect to Interest Bearing Bonds prior to any separation of Cash Interest Payment Components from the Principal Component thereof, \$5,000 or any integral multiple thereof; (iii) with respect to Interest Bearing Bonds and the Principal Strip Certificates thereof subsequent to any separation of the Cash Interest Payment Components from the Principal Component thereof, \$40,000 or any integral multiple thereof; and (iv) with respect to Tax Credit Certificates and Cash Interest Certificates for any single Tax Credit Allowance Date, \$575, which is an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate, or any integral multiple thereof; provided, however that the Authorized Denomination for Tax Credit Certificates with respect to the first Tax Credit Allowance Date shall be \$526.

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

“Available Project Proceeds” means the excess of the proceeds of sale of the Bonds, over the issuance costs financed by the Bonds (to the extent that such costs do not exceed two percent of such proceeds), and the proceeds from any investment of such excess.

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

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

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

“*Bond Resolution*” means Resolution No. 09-0826-RS5, adopted by the Board on August 26, 2009, authorizing the issuance of the Bonds, as amended by Resolution No. 09-1123-RS2 adopted by the Board on November 23, 2009.

“*Bond Year*” means each annual period beginning on December 16 of a calendar year to and including December 15 of the next succeeding calendar year.

“*Bonds*” means the \$254,240,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009G (Qualified School Construction Bonds), of the Board, being issued under the Indenture and any Bonds issued hereunder in substitution or replacement therefor.

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

“*Cash Interest Certificates*” means the certificates executed and delivered in accordance with the Indenture, from and after the Tax Credit Conversion Date, which certificates evidence the entitlement of the Owner thereof to the Cash Interest Payment Components with respect to any Bond that has been converted into an Interest Bearing Bond, the Cash Interest Payment Components related to which has been separated therefrom pursuant to the Indenture. The maximum face amount of Cash Interest Certificates with respect to any single Cash Interest Payment Date shall not exceed \$3,654,700 (being twenty-five percent (25%) of the product of (i) the maximum principal amount of Interest Bearing Bonds, or \$254,240,000, and (ii) the Tax Credit Rate).

“*Cash Interest Payment Component*” means, with the exception of the cash interest payments relating to the Supplemental Coupon, any cash interest payment with respect to any Interest Bearing Bond.

“*Cash Interest Payment Date*” means, with respect to Interest Bearing Bonds and Cash Interest Certificates, March 15, June 15, September 15 and December 15 in each year, commencing on the March 15, June 15, September 15 or December 15 immediately following the Tax Credit Conversion Date, during which the Interest Bearing Bonds are outstanding.

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

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

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

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

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

“*Date of Determination of Loss of Qualified School Construction Bond Status*” means the date on which the IRS or a court of competent jurisdiction has issued to the Board a Determination of Loss of Qualified School Construction Bond Status.

“*Date of Loss of Qualified School Construction Bond Status*” means the date specified in a Determination of Loss of Qualified School Construction Bond Status as the date from and after which the Bonds lost their status, or failed to qualify, as “qualified school construction bonds” as defined in Section 54F of the Code as a result of an Accountable Event of Loss of Qualified School Construction Bond Status.

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

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

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

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

“*Determination of Loss of Qualified School Construction Bond Status*” means (i) a final determination by the IRS (after the Board has exhausted or waived all administrative and judicial appeal remedies) determining that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status and the amount of Bonds that are subject to the Accountable Event of Loss of Qualified School Construction Bond Status, or (ii) a non-appealable holding by a court of competent jurisdiction holding that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status.

“*DTC*” means The Depository Trust Company, New York, New York, as securities depository for the Bonds, Principal Strip Certificates, Cash Interest Certificates and the Tax Credit Certificates.

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

“*Expenditure Termination Date*” means December 17, 2012, the third anniversary date of the date of issuance of the Bonds, and the last date of the “expenditure period” as defined in Section 54A(d)(2)(B)(ii) of the Code or, upon the extension of such “expenditure period” pursuant to Section 54A(d)(2)(B)(iii) of the Code, the last day of the “expenditure period” as so extended.

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

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

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

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

“*Indenture*” means the Trust Indenture, dated as of December 1, 2009, by and between the Board and the Trustee, as from time to time amended and supplemented.

“*Interest Bearing Bonds*” means the Bonds from and after the Tax Credit Conversion Date, if any.

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

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

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

- (i) Government Obligations;
- (ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Services Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)

- U.S. Department of Housing & Urban Development (PHA’s)
- Federal Housing Administration;

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

(iv) U.S. dollar denominated deposit accounts, demand deposits, including interest bearing money market accounts, trust deposits, time deposits, federal funds and banker’s acceptances with domestic commercial banks (including the Trustee and its affiliates) which at the time of purchase have any two of the following ratings on their short-term certificates of deposit: “A-1” or “A-1+” by S&P, “P-1” by Moody’s and “F1” or “F1+” by Fitch, and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(v) Commercial paper which at the time of purchase has any two of the following ratings: “A-1” or above by S&P, “P-1” by Moody’s and “F1” by Fitch, and which matures not more than 180 days after the date of purchase;

(vi) Investments in a money market fund which at the time of purchase is rated “AAAm” or “AAAm-G” or better by S&P, including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;

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

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract.

“IRS” means the Internal Revenue Service of the United States Department of the Treasury.

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

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

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

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

maturity or redemption date), *provided that* if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV of the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

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

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

“*Owner*” means (i) with respect to a Bond or Interest Bearing Bond, the Person in whose name such Bond is registered and (ii) with respect to any Principal Strip Certificate, Tax Credit Certificate, or Cash Interest Certificate, the Person in whose name such Principal Strip Certificate, Tax Credit Certificate or Cash Interest Certificate shall be registered.

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

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

“*Pledged State Aid Revenues*” means State Aid Revenues not in excess of \$225,000,000 available under the 2008 Authorization in amounts each year as shall provide for the payment of the Bonds, the 2008 Authorization State Aid Bonds and the provision of not less than an additional .10 times such amounts in such years, and pledged under the Indenture as security for the Bonds.

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

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

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

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

(A) which are rated, based on an irrevocable escrow account or fund (the “*Escrow*”), in the highest rating category of Standard & Poor’s Ratings Services and Moody’s Investors Service Inc. or any successors thereto; or

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

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

“*Principal Component*” means any principal payment with respect to any Bond or Interest Bearing Bond.

“*Principal Strip Certificates*” means certificates executed and delivered by the Board in accordance with the Indenture, which certificates evidence the entitlement of the Owner thereof to the Principal Component with respect to any Bond or Interest Bearing Bond, as applicable, the Tax Credit Component or Cash Interest Payment Component related to which have been separated therefrom pursuant to the Indenture.

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

“*Project*” means the construction, rehabilitation, or repair of a public school facility, the acquisition of land on which such public school facility is to be constructed and the acquisition of equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated or repaired with the proceeds of the Bonds or other QSCBs, all to the extent that the improvement of such public school facility has been approved by the Board.

“*Project Costs*” means the cost of acquisition, construction and equipping of the Project, including the costs of issuance of the Bonds, interest during construction, the cost of engineering and legal expenses, plans, specifications, other expenses necessary or incident to constructing any portion of the Project and such other costs, expenses and funding as may be necessary or incident to the construction of the Project, all to the extent, but only to the extent, such costs may be funded with the proceeds of QSCBs under Section 54A and Section 54F of the Code.

“*Project Fund*” means the fund established in the Indenture.

“*Qualified School Construction Bond*” or “*QSCB*” means any “qualified school construction bond” as defined in Section 54F(a) of the Code.

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

“*Record Date*” means the first day of the calendar month of each interest payment date.

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

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

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

“*SLGs*” means United States Treasury Certificates of Indebtedness, Notes and Bonds – State and Local Government Series.

“*State*” means the State of Illinois.

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

“*Supplemental Coupon*” means the interest which the Bonds bear (at the Supplemental Coupon Rate) at the time of the issuance thereof (and which Interest Bearing Bonds and the Principal Strip Certificates related to which will continue to bear from and after the Tax Credit Conversion Date, if any).

“*Supplemental Coupon Rate*” means 1.75% per annum.

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

“*Swap Agreement*” means any agreement between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis different from that provided in the Bonds for the payment of interest.

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

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

“*Swap Payment Date*” has the meaning set forth in the Indenture.

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

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

“*Tax Credit*” means the entitlement of a taxpayer to recognize a credit against the tax imposed by Chapter 1 of the Code.

“*Tax Credit Allowance Date*” means, with respect to Bonds, each March 15, June 15, September 15 and December 15 of each year beginning on March 15, 2010 and ending on the maturity date thereof unless such Bonds shall have been converted to Interest Bearing Bonds.

“*Tax Credit Certificates*” means the certificates executed and delivered in accordance with Section 13.3 of the Indenture, which certificates evidence the entitlement of the Owner thereof to the Tax Credits with respect to any Bond, the Principal Components related to which have been separated therefrom. The maximum amount of a Tax Credit Certificate with respect to any single Tax Credit Allowance Date shall not exceed \$3,654,700 (being twenty-five percent (25%) of the product of (i) the initial principal amount of the Bonds and (ii) the Tax Credit Rate).

“*Tax Credit Component*” means the component of each Bond relating to the Tax Credits.

“*Tax Credit Conversion Date*” means the December 15 following the next succeeding August 1 after the Date of Determination of Loss of Qualified School Construction Bond Status.

“*Tax Credit Program*” means the program for allocating Tax Credits and authorizing the issuance of Qualified School Construction Bonds promulgated under Sections 54A and 54F of the Code.

“*Tax Credit Rate*” means 5.75%, the Tax Credit Rate for the Bonds established by the United States Department of Treasury.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., and any successor or successors appointed under the Indenture as hereinafter provided. The “principal corporate trust office” of the Trustee means 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602,

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

“*2008 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 08-0227-RS13 adopted by the Board on February 27, 2008, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$1,900,000,000.

“*2008 Authorization Bonds*” means the Alternate Bonds (other than the Bonds) issued pursuant to the 2008 Authorization as more particularly described in the recitals hereto.

“*2008 Authorization State Aid Bonds*” means the 2008 Authorization Bonds, other than the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, of the Board.

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

Pledge of Trust Estate

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

(a) The Pledged State Aid Revenues and the Pledged Taxes; provided that the pledge of State Aid Revenues to the Bonds is on a parity with the pledge of such revenues to outstanding Alternate Bonds of the Board payable from State Aid Revenues and issued pursuant to the 2008 Authorization;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts (except the Costs of Issuance Account) established pursuant to the Indenture; and

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

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

The Bonds Are General Obligations

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

Additional Bonds Payable From Pledged State Aid Revenues

The Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Board reserves the right to issue Additional Bonds payable from all or any portion of the State Aid Revenues available under the 2008 Authorization or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from State Aid Revenues available under the 2008 Authorization subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 2008 Authorization available to the Board in each year in excess of those required to be deposited in the Alternate Revenues Account during such year.

Provisions Regarding QSCB Designation of Bonds

In accordance with the requirements of Sections 54A and 54F of the Code, the Board hereby designates the \$254,240,000 aggregate principal amount of the Bonds as Qualified School Construction Bonds.

Provisions Regarding QSCB Status

In order to maintain the status of the Bonds as QSCBs under Section 54F of the Code, the Board shall comply with the provisions of the Code applicable to QSCBs, including without limitation (i) Sections 54A and 54F of the Code, and (ii) the provisions of the Code relating to the computation of the yield on investments of the "gross proceeds" of an issue of QSCBs, as such term is defined in the Code, reporting of the earnings on such gross proceeds and rebates of earnings on such gross proceeds to the Department of the Treasury of the United States of America, to the extent such provisions apply to an

issue of QSCBs. In furtherance of the foregoing, the Board shall comply with the provisions of the Tax Agreement.

Provisions Regarding Payment of Bonds

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

Provisions Regarding Transfer And Exchange Of Bonds

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

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

Subject to the provisions of Article XIII of the Indenture and the Tax Credit Program, the Board and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the registration books of the Board as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on, such Bond and for all other purposes, and all such payments so made to any such Owner or upon its order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Board nor any Fiduciary shall be affected by any notice to the contrary.

The Registrar and the Trustee will not be required to make any registration, transfer or exchange of any Bond during the period between each Record Date and the next succeeding interest payment date for such Bond, or after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving of notice of such redemption.

Establishment and Application of Project Fund

The Project Fund is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Prior to the earlier of the Expenditure Termination Date or the date the Trustee selects the redemption date for Bonds to be redeemed pursuant to the Indenture, moneys on deposit in the Project Fund will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of costs of issuing the Bonds upon receipt by the Trustee of a certificate of an Authorized Officer of the Board describing the costs of issuance to be paid or reimbursed with such moneys.

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

Establishment and Application of Debt Service Fund and Accounts

The Debt Service Fund and the following Accounts within the Debt Service Fund are established with the Trustee to be held and applied in accordance with the provisions of the Indenture: (a) Pledged State Aid Revenues Account, consisting of (i) the Interest Deposit Sub-Account, and (ii) the Pledged State Aid Revenues Sub Account; (b) Pledged Taxes Account; (c) Bond Payment Account, consisting of (i) the Interest Sub Account and (ii) the Principal Sub Account; and (c) Swap Payment Account.

Investment of Funds

Moneys held in the Principal Sub-Account shall be invested and reinvested by the Trustee at the written direction of the Designated Official only in SLGs; or in United States Treasury STRIPS; or in other securities the payment of the principal of and interest on which is guaranteed by the full faith and credit of the United States of America. Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund (other than the Principal Sub-Account) and the Project Fund shall be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters of the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account. The Trustee may conclusively rely upon the Designated Official’s written instructions as to both the suitability and legality of the directed investments. Ratings of Investment Securities shall be determined at the time of purchase of such Investment Securities and without regard to ratings subcategories. Nothing contained in the Indenture shall be construed to prevent such Designated Official from directing the Trustee to make any such investments or reinvestments through the use of a Forward Supply Contract, to the extent permitted by Illinois law and the Investment Policy, and the Trustee shall comply with the terms and provisions of any such Forward Supply Contract. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, as negotiated and agreed to by the Board. Notwithstanding, the Trustee shall provide the Board with advance written notification of any change to the cash sweep account fees currently in effect. The Board has provided a certified copy of the Investment Policy to the Trustee in connection with the initial delivery of the Bonds and the Board covenants and agrees to provide to the Trustee in a timely fashion any amendments to or revisions of such Investment Policy. The Trustee shall be entitled to conclusively rely on the Investment Policy provided to it by the Board as the Investment Policy in effect at the time any investment is made. All investment income shall be retained in the Fund or Account to which the investment is credited from which such income is derived. All investments made under the Indenture shall be consistent with the expectations expressed in the Tax Agreement.

Annual Sinking Fund Payments.

The Board shall provide for the deposit by December 15 of the following years into the Principal Sub-Account of the annual amounts as provided in the Indenture, subject to adjustment pursuant to this paragraph, each constituting a mandatory Annual Sinking Fund Payment for the retirement of the Bonds at maturity. If Bonds are redeemed prior to maturity by extraordinary mandatory redemption pursuant to this paragraph, then the Annual Sinking Fund Payment due on each December 15 after the redemption date shall be reduced by the amount obtained by multiplying the Annual Sinking Fund Payment set forth for each year as set forth in the Indenture by a fraction the numerator of which is the principal amount of Bonds redeemed pursuant to such extraordinary mandatory redemption and the denominator of which is \$254,240,000, the principal amount of Bonds Outstanding as of the time immediately prior to such redemption.

The Board may suspend annual deposits to the Pledged State Aid Revenues Sub-Account pursuant to Section 5.4(A) of the Indenture and annual deposits to the Pledged Taxes Account pursuant to Section 5.4(B) of the Indenture in each case to the extent such deposits are to be made in satisfaction of the requirement to make Annual Sinking Fund Payments whenever the sum of the Investment Securities (without reinvestment) and the moneys held in the Principal Sub-Account is sufficient to provide for the punctual payment of the principal amount of the Outstanding Bonds at maturity.

Valuation and Sale of Investments

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

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

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

Swap Agreements

With respect to the Bonds, the Board may enter into one or more of the agreements authorized by Section 7 of the Bond Authorization Act of the State of Illinois. The Board may designate any such agreement as a Swap Agreement by filing with the Trustee (i) an executed counterpart of such agreement and (ii) a written notice that such agreement has been designated as a Swap Agreement for the purposes of the Indenture. Each Swap Payment under a Swap Agreement shall be payable from the Swap Payment Account. The stated notional amount under all such Swap Agreements (net of offsetting transactions) shall not in the aggregate exceed the then outstanding principal amount of the Bonds. Each Swap Agreement shall satisfy the following conditions precedent: (i) each Rating Service (if such Rating Service also rates the unsecured obligations of the proposed Swap Provider or any person who guarantees

the obligations of the Swap Provider under the Swap Agreement) shall have assigned the unsecured obligations of the Swap Provider or such guarantor, as of the date the Swap Agreement is entered into, a rating that is equal or higher than the rating then assigned to the Outstanding Bonds by such Rating Service, and (ii) the Board shall have notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor, if any, under the Swap Agreement) in writing, at least fifteen days prior to executing and delivering the Swap Agreement of its intention to enter into the Swap Agreement.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged State Aid Revenues

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged State Aid Revenues to the payment of the Bonds and the 2008 Authorization State Aid Bonds and the provision of not less than an additional .10 times debt service on the Bonds and the Authorization State Aid Bonds.

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

Covenants Regarding Pledged Taxes

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

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

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

Indebtedness and Liens

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

Accounts and Reports

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

Events of Default and Remedies

Events of Default

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

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

Proceedings Brought By Trustee

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

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

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

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

Application of Trust Estate and Other Moneys on Default

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

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

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

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

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

(3) to the payment of Swap Payments.

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

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

Restrictions on Bondholders' Actions

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

No Remedy Exclusive

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

Waiver

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

Provisions Relating To Trustee

Resignation and Removal of Trustee

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

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

Appointment of Successor Trustee

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

If no appointment of a Trustee is made by the Board within 60 days following such resignation or renewal pursuant to the provisions as described in the foregoing paragraph, the Owner of any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

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

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners

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

- (1) To impose additional covenants or agreements to be observed by the Board;
- (2) To impose other limitations or restrictions upon the Board;
- (3) To surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (4) To confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;
- (5) To make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds;

- (6) To cure any ambiguity, omission or defect in the Indenture;
- (7) To provide for the appointment of a successor securities depository;
- (8) To provide for the appointment of any successor Fiduciary;
- (9) To make any change in the provisions of Indenture relating to the Tax Credit Program; provided that any such change shall be undertaken in accordance with the provisions of the Indenture; and
- (10) To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective upon Consent of Owners

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

Amendments

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

Consent of Owners. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be

effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereof whether or not such subsequent Owner has notice thereof, provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

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

Defeasance

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

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date will be deemed to have been paid as described in the preceding paragraph if the Board has delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than

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

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

Provisions Regarding the Tax Credit Program.

The Bonds shall be issued in a form that permits the separation, under the Tax Credit Program, of the ownership of the Principal Component of a Bond from the entitlement of the Owner thereof to the related Tax Credits. The Indenture provides for the terms and conditions pursuant to which: (i) the ownership of the Principal Component of a Bond may be separated from the ownership of the related Tax Credit Component; (ii) the ownership of the Principal Component of an Interest Bearing Bond may be separated from the ownership of the related Cash Interest Payment Component; (iii) the ownership of Principal Strip Certificates and Tax Credit Certificates may be recombined into Bonds; (iv) the ownership of Principal Strip Certificates and Cash Interest Certificates may be recombined into Interest Bearing Bonds; and (v) Bonds may be converted into Interest Bearing Bonds.

Tax Credit Rate

Except as otherwise provided below, the Owner of a Bond on each Tax Credit Allowance Date, or the Owner of the applicable Tax Credit Certificate stripped from such Bond pursuant to the Indenture, shall be entitled to claim a Tax Credit on such Tax Credit Allowance Date to the extent provided by the Code. Under the provisions of the Code as in effect on the date of issuance of the Bonds, the Tax Credit due on each such Tax Credit Allowance Date will be in an amount equal to twenty-five percent (25%) of the product of (i) the principal amount of such Bond and (ii) the Tax Credit Rate. The amount of any Tax Credit for the first Tax Credit Allowance Date shall be pro rated by the number of days from December 17, 2009, the date of delivery of the Bonds, to the first Tax Credit Allowance Date in accordance with the Code. A similar rule of pro ration shall apply upon any redemption of the Bonds prior to maturity.

Owners of Bonds and Tax Credit Certificates are, and the Board shall not be, responsible for calculating and claiming any Tax Credit as of any Tax Credit Allowance Date and in the manner specified in the Code, except as may be required by regulations promulgated in connection with Qualified School Construction Bonds.

Stripping of Tax Credits

At any time, by written request to the Trustee, the Owner of (or, with respect to Bonds in DTC book-entry form, the DTC Participant for) a Bond may, upon presentation of such Bond, direct the Trustee to authenticate and deliver: (i) a Principal Strip Certificate in a principal amount equal to the principal amount of the Bonds to be so separated and (ii) Tax Credit Certificates representing the entitlement to the allocable Tax Credits with respect to such Bonds. The form of the Tax Credit Strip Request may be modified or amended by the Trustee with the prior written consent of the Board.

The Tax Credit Certificates shall be executed and delivered as fully registered Tax Credit Certificates, in face amounts corresponding to Authorized Denominations and in an amount for each equal to twenty-five percent (25%) of the product of (i) the principal amount of the related Bonds presented and (ii) the Tax Credit Rate. To the extent required by DTC, new CUSIP numbers shall be obtained for each Tax Credit Certificate.

Upon the separation, if any, of the ownership of the Principal Component of a Bond from the entitlement of the Owner thereof to the related Tax Credits, the Owner of the Principal Strip Certificate related thereto shall be entitled to the Supplemental Coupon related to such Bond.

Notwithstanding the separation, if any, of the ownership of the Principal Component of a Bond from the entitlement of the Owner thereof to the related Tax Credit Component, the previously combined Bond shall remain Outstanding and the ownership of Principal Strip Certificates evidencing the rights to the related Principal Components and the Supplemental Coupon related thereto and the ownership of the Tax Credit Certificates evidencing the rights to such Tax Credits related thereto shall constitute such Outstanding Bond.

Extraordinary Mandatory Redemption from Unexpended Bond Proceeds

In the event of an extraordinary mandatory redemption of Bonds pursuant to the Indenture and in the event that Bonds have been exchanged for Principal Strip Certificates and Tax Credit Certificates (in whole or in part) and registered separately pursuant to the Indenture, the redemption amount shall be allocated, as nearly as reasonably possible, pro rata between (i) Bonds and (ii) an amount of (a) Principal Strip Certificates and (b) Tax Credit Certificates that would relate to such principal amount of Principal Strip Certificates, based upon the relative principal amounts of the outstanding Bonds and the outstanding Principal Strip Certificates. Any Principal Strip Certificates and Tax Credit Certificates to be so redeemed shall also be called for redemption on the same terms and conditions and in the same manner as the Bonds, and the Redemption Price used to redeem Principal Strip Certificates and Tax Credit Certificates so redeemed shall be allocated to the Bonds, Principal Strip Certificates and the Tax Credit Certificates in the proportions and values set forth in the allocable value tables in the Indenture.

Recombining Principal Components and Tax Credits.

(A) At any time, by written request to the Trustee in the form of Tax Credit Recombination Request, the Owner of (i) a Principal Strip Certificate and (ii) sufficient Tax Credit Certificates may, upon presentation to the Trustee of such Principal Strip Certificate and Tax Credit Certificates, direct the Trustee to authenticate and deliver (1) a Bond in a principal amount equal to the principal amount of the

Principal Strip Certificate to be so converted, and (2) reducing, by the amount so converted, the number of Principal Strip Certificates and Tax Credit Certificates. The form of the Tax Credit Recombination Request may be modified or amended by the Trustee with the prior written consent of the Board.

Conversion of Bonds into Interest Bearing Bonds; Conversion of Tax Credit Certificates into Cash Interest Certificates; Disallowed Tax Credits.

The Bonds shall be converted, in whole or in part, into Interest Bearing Bonds requiring the Board to make cash payments of interest thereon to the Owners thereof as provided in this paragraph on the December 15 following the next succeeding August 1 after the Date of Determination of Loss of Qualified School Construction Bond Status.

If the event described in the preceding sentence occurs, (1) the Bonds, any Principal Strip Certificates relating thereto and any Tax Credit Certificates representing Tax Credits for Tax Credit Allowance Dates occurring after the Tax Credit Conversion Date shall, on the Tax Credit Conversion Date or as soon thereafter as practical, be exchanged by the Owner thereof for Interest Bearing Bonds, Principal Strip Certificates relating to the Interest Bearing Bonds and Cash Interest Certificates without the need for any further action or proceeding by the Board, (2) such Interest Bearing Bonds, related Principal Strip Certificates and Cash Interest Certificates shall, from and after the Tax Credit Conversion Date, be Interest Bearing Bonds or related Principal Strip Certificates and Cash Interest Certificates, respectively, for all purposes of the Indenture, and (3) if the Bonds have not already ceased to be “qualified school construction bonds” under Section 54F of the Code as a result of a Determination of Loss of Qualified School Construction Bond Status, the Bonds, from and after the Tax Credit Conversion Date, shall cease to be “qualified school construction bonds” under Section 54F of the Code. Interest Bearing Bonds shall bear interest (in addition to the Supplemental Coupon) from the Tax Credit Conversion Date (with appropriate adjustment for any Tax Credits that in fact will be allowed to the Owner by the IRS subsequent to such Tax Credit Conversion Date) to maturity at an interest rate per annum equal to the Tax Credit Rate, payable quarterly on each Cash Interest Payment Date. Such interest shall be computed on the basis of a 360-day year of twelve 30-day months. The Owner of any Interest Bearing Bond or Principal Strip Certificate related thereto shall be entitled to the Supplemental Coupon related to the Bond so converted. If the Bonds are converted into Interest Bearing Bonds, any Bonds, Principal Strip Certificates related thereto or Tax Credit Certificates not exchanged for Interest Bearing Bonds, Principal Strip Certificates related thereto and Cash Interest Certificates by the Owners thereof shall be deemed to be so exchanged.

Subject to the paragraph below, in the event that any Tax Credits that have been recognized by an Owner with respect to Tax Credit Allowance Dates occurring on or prior to the Tax Credit Conversion Date are determined to be ineligible as Tax Credits as a result of a Determination of Loss of Qualified School Construction Bond Status, the Board shall pay to the Trustee for distribution to the respective Owners (as of the applicable Tax Credit Allowance Dates for such disallowed Tax Credits) of the Bonds or Tax Credit Certificates, as appropriate, an amount equal to the amount of such disallowed Tax Credits, plus interest thereon from the applicable Tax Credit Allowance Date to the date of payment to the Trustee, compounded quarterly at the rates equal to the large corporate underpayment rates determined from time to time by the IRS during such interest compounding period to be paid on or before the January 15th following the next succeeding August 1st after the Date of Determination of Loss of Qualified School Construction Bond Status.

The Board shall have no obligation to make payments under the above paragraph and shall not incur a liability to any Owner if Tax Credits are disallowed because the separation of Tax Credits from the Bonds in the manner provided in the Indenture failed to comply with the requirements of the Code or applicable regulations, including, without limitation, regulations prescribed by the Secretary of the

Treasury pursuant to Section 54A(i) of the Code that are published or promulgated subsequent to such separation.

The moneys required to be paid by the Board pursuant to this section shall be paid to the Trustee and deposited into a special account held by the Trustee. Such moneys shall be distributed by the Trustee to the Owners entitled thereto as verified in a statement of claim signed by the Owner and filed with the Trustee. Interest earnings on moneys in the special account may be withdrawn by the Board free from the lien of the Indenture.

Stripping of Cash Interest Certificates.

At any time, by written request to the Trustee in the form of the “Cash Interest Strip Request”, the Owner of an Interest Bearing Bond may, upon presentation of such Interest Bearing Bond, direct the Trustee to authenticate and deliver (i) a Principal Strip Certificate in a principal amount equal to the principal amount of the Interest Bearing Bonds to be so separated and (ii) Cash Interest Certificates representing the entitlement to the Cash Interest Payment Component with respect to such Interest Bearing Bonds to be converted. The form of the Cash Interest Strip Request may be modified or amended by the Trustee with the prior written consent of the Board.

The Principal Strip Certificate shall be executed and delivered as a fully registered Principal Strip Certificate, in an amount corresponding to an Authorized Denomination and in an amount equal to the principal amount of the related Interest Bearing Bond presented.

The Cash Interest Certificates shall be executed and delivered as fully registered Cash Interest Certificates, in amounts corresponding to Authorized Denominations and in an amount for each equal to twenty-five percent (25%) of the product of (i) the principal amount of the related Interest Bearing Bonds presented and (ii) the Tax Credit Rate. To the extent required by DTC, specific CUSIP numbers shall be obtained for each Cash Interest Certificate.

Upon the separation, if any, of the ownership of the Principal Component of an Interest Bearing Bond from the entitlement of the Owner thereof to the related Cash Interest Payment Component, the Owner of the Principal Strip Certificate related thereto shall be entitled to the Supplemental Coupon related to such Interest Bearing Bond.

Notwithstanding the separation, if any, of the ownership of the Principal Component of an Interest Bearing Bond from the entitlement of the Owner thereof to the related Cash Interest Payment Component, the previously combined Interest Bearing Bond shall remain outstanding and the ownership of Principal Strip Certificates evidencing the rights to the related Principal Components and the Supplemental Coupon related thereto and the ownership of the Cash Interest Certificates shall constitute such outstanding Interest Bearing Bond.

Recombining Principal Components and Cash Interest Payments.

At any time, by written request to the Trustee in the form of the “Cash Interest Recombination Request”, the Owner of (i) a Principal Strip Certificate and (ii) sufficient Cash Interest Certificates having payment dates corresponding to each and every Cash Interest Payment Date that would remain with respect to an Interest Bearing Bond, and having a face amount with respect to each such Cash Interest Payment Date equal to the amount of the Cash Interest Payment Component that would be paid on an Interest Bearing Bond with a principal amount equal to the Principal Strip Certificates to be recombined, may, upon presentation of such Principal Strip Certificates and Cash Interest Certificates, direct the Trustee to authenticate and deliver (1) an Interest Bearing Bond in a principal amount equal to the

principal amount of the Principal Strip Certificate to be so converted, and (2) reducing by the amount so converted, the amount of Principal Strip Certificates and Cash Interest Certificates. The form of the Cash Interest Recombination Request may be modified or amended by the Trustee with the prior written consent of the Board.

Rights and Remedies of Separate Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates.

If and to the extent that any Bonds or Interest Bearing Bonds are separated into Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, the Owners of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates shall have the same rights and remedies granted to the Owners of Bonds or Interest Bearing Bonds, as applicable, and shall receive all notices required to be sent to Owners of the Bonds or Interest Bearing Bonds. For purposes of determining if there is a required percentage in aggregate principal amount of the Outstanding Bonds affected by a proposed action, consent or direction, if the proposed action, consent or direction would affect the Owners of Bonds or Interest Bearing Bonds, the Owners of the Principal Strips Certificates, Tax Credit Certificates and Cash Interest Certificates shall be entitled to collective voting rights equal to the principal amount of the related Principal Strip Certificates, and such voting rights shall be further allocated to the Owners of the Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates in proportion to the values set forth in the Indenture.

Transfer and Exchange of Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates.

Any Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates may, in accordance with its terms and the Indenture, be transferred upon the registration books by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Principal Strip Certificate, Tax Credit Certificate or Cash Interest Certificate, as applicable, for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Principal Strip Certificate, Tax Credit Certificate or Cash Interest Certificate shall be surrendered for transfer, the Board shall execute and the Trustee shall authenticate and shall deliver a new Principal Strip Certificate, Tax Credit Certificate or Cash Interest Certificate, as applicable, in an Authorized Denomination and of the same tenor, maturity and interest rate, if any. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Any Principal Strip Certificate, Tax Credit Certificate and Cash Interest Certificate may be exchanged at the designated corporate trust office of the Trustee for a like Authorized Denomination of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, of the same tenor, maturity and interest rate, if any, of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates pursuant to this Section during the period established by the Trustee for the selection of Principal Strip Certificates, Tax Credit Certificates, Cash Interest Certificates or related Qualified School Construction Bonds or Interest Bearing Bonds, as applicable, for redemption, or with respect to any Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates selected for redemption.

Book-Entry System.

(A) Upon the separation of the ownership of the Bonds from the entitlement of the Owner thereof to the related Tax Credits or the separation of the ownership of the Interest Bearing Bonds from the entitlement of the Owner thereof to the Cash Interest Payment Component, the ownership of Principal Strip Certificates evidencing the rights to the related Principal Components and the ownership of the Tax Credit Certificates evidencing the rights to such Tax Credits or the ownership of the Cash Interest Certificates evidencing the rights to such Cash Interest Payment Component, as applicable, shall be registered in the registration books in the name of Cede & Co., as nominee of DTC, except as provided in paragraph (C) of this Section. The Board and each Fiduciary may treat DTC (or its nominee) as the sole and exclusive Owner of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, registered in its name for the purposes of payment of amounts, if any, with respect to the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, selecting the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates or portions thereof, as applicable, to be redeemed, giving any notice permitted or required to be given to Owners of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, under this paragraph, registering the transfer of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, obtaining any consent or other action to be taken by Owners of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, and for all other purposes whatsoever, and each Fiduciary and the Board shall not be affected by any notice to the contrary. The Trustee and the Board shall not have any responsibility or obligation to any DTC Participant, any person claiming a beneficial ownership interest in the Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates under or through DTC or any DTC Participant, or any other person which is not shown on the registration books as being an Owner, with respect to the accuracy of any records maintained by DTC or any DTC Participant; the payment by DTC or any DTC Participant of any amount in respect of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates; any notice which is permitted or required to be given to Owners of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates under this paragraph; the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates; or any consent given or other action taken by DTC as Owner of Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates. The Trustee (or any Paying Agent) shall pay all amounts, if any, with respect to the Principal Strip Certificates and Cash Interest Certificates, as applicable, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Board's obligations with respect to any such amounts with respect to the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, to the extent of the sum or sums so paid. Except under the conditions of paragraph (C) of this Section, no person other than DTC shall receive an executed Principal Strip Certificate, Tax Credit Certificate or Cash Interest Certificate. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the term "Cede & Co." in this paragraph shall refer to such new nominee of DTC.

So long as the Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates, as applicable, are registered in the name of Cede & Co. or its registered assigns, the Trustee shall process all Tax Credit Strip Requests, Cash Interest Strip Requests, Tax Credit Recombination Requests and Cash Interest Recombination Requests through DTC's book-entry system.

So long as the Principal Strip Certificates, Tax Credit Certificates and Cash Interest Certificates, as applicable, are registered in the name of Cede & Co., or its registered assigns, the Board and the Trustee shall cooperate with Cede & Co., as sole registered Owner, or its registered assigns, in effecting payment of the Redemption Price, if any, of the Principal Strip Certificates, Tax Credit Certificates and

Cash Interest Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made by wire transfer of same-day funds on the date they are due.

In the event (i) DTC, including any successor as securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, determines not to continue to act as securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates; or (ii) the Board determines that the incumbent securities depository shall no longer so act, subject to the applicable procedures of the incumbent securities depository, and delivers a written certificate to the Trustee to that effect, then the Board will discontinue the book-entry system with the incumbent securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates. If the Board determines to replace the incumbent securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates with another qualified securities depository, subject to the applicable procedures of the incumbent securities depository, the Board shall prepare or direct the preparation of a new single, separate fully registered Principal Strip Certificate, a new single, separate fully registered Tax Credit Certificate for the aggregate outstanding amount of Tax Credits that have been separated from the ownership of the related Bonds and a new single, separate fully registered Cash Interest Certificate, as applicable, or, to the extent authorized by the Indenture, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Board, the Trustee and the successor securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates as are not inconsistent with the terms of the Indenture. If the Board fails to identify another qualified successor securities depository of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates to replace the incumbent securities depository, then the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates shall no longer be restricted to being registered in the registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository for the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates, as applicable, or its nominee, shall designate. In such event the Trustee shall authenticate and deliver a sufficient quantity of the Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates as necessary to carry out the transfers and exchanges provided in the Indenture.

So long as the Tax Credit Certificates are registered in the name of Cede & Co. or its registered assigns, the Trustee shall provide notice to DTC of the expiration of each Tax Credit Certificate, not less than forty-five (45) days prior to the Tax Credit Allowance Date for such Tax Credit Certificate, in the form included as Attachment II hereto.

Amendment of Article XIII of the Indenture– Tax Credit Program; Waiver.

The provisions of Article XIII of the Indenture “Tax Credit Program” shall be amended, by written agreement of the Board and the Trustee, and any provision of Article XIII shall be waived, each without the consent of the Owners of the Bonds, Interest Bearing Bonds, Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates or any other Person, if (a) an amendment to Section 54A or 54F of the Code is adopted, or a new or modified official interpretation of Section 54A or 54F of the Code is issued, after December 17, 2009 which is applicable to the Tax Credit Program; (b) legislation shall have been enacted by the United States or the State of Illinois, or a decision shall have been rendered by a court of the United States or the Tax Court of the United States, or a ruling shall have been made or a regulation, proposed regulation or a temporary regulation or an official statement shall have been published in the Federal Register or any other release or announcement shall have been made by or on behalf of the Treasury Department of the United States, U.S. Securities and Exchange Commission or the IRS with respect to the stripping of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates from the related Bonds or Interest Bearing Bonds, as applicable, or (c) rules, procedures or

guidance shall have been adopted by DTC or any successor or replacement securities depository with respect to the stripping of Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates from the related Bonds or Interest Bearing Bonds, as applicable provided that in each case the Board shall have delivered to the Trustee an Opinion of Counsel addressed to the Board and the Trustee to the effect that performance by the Board and Trustee under Article XIII as so amended or giving effect to such waiver, as the case may be, will not result in a violation of Sections 54A or 54F of the Code. The Board shall cause to be given to the Owners prompt notice of any such amendment to or waiver of any provision of Article XIII.

APPENDIX C

Form of Opinion of Bond Counsel

December 17, 2009

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

Dear Members:

We have examined a record of proceedings relating to the issuance of \$254,240,000 principal amount of Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009G (Qualified School Construction Bonds) (the "Bonds") of the Board of Education of the City of Chicago (the "Board"). The Bonds are authorized and issued pursuant to The School Code of the State of Illinois, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 08-0227-RS13, adopted by the Board on February 27, 2008 (the "2008 Authorizing Resolution"), Resolution No. 09-0826-RS5, adopted by the Board on August 26, 2009, as amended by Resolution No. 09-1123-RS2, adopted by the Board on November 23, 2009 (the "Bond Resolution") and a Trust Indenture dated as of December 1, 2009 (the "Indenture") by and between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Terms used herein, which are defined in the Indenture, shall have the meanings set forth in the Indenture unless otherwise defined herein.

The Bonds are issuable in the form of fully registered bonds in the denominations of \$40,000 and any integral multiple thereof. The Bonds delivered on original issuance are dated December 17, 2009. The Bonds mature on December 15, 2025 and bear interest from their date at the rate of one and three-quarters percentum (1.75%) per annum, payable on March 15, 2010 and quarter-annually thereafter on each March 15, June 15, September 15 and December 15. The Bonds also bear a federal income tax credit at the rate of five and three-quarters percentum (5.75%) per annum determined pursuant to and having the effect provided under Section 54A of the Internal Revenue Code of 1986 (the "Code").

The Bonds are subject to extraordinary mandatory redemption, as a whole, or in part, at the redemption price of par, on March 15, 2013 and on any March 15, June 15, September 15 or December 15 thereafter, in accordance with the requirements of Section 54A(d)(2)(B) of the Code regarding the required expenditure of the available project proceeds of the Bonds within the three year period (or permitted extended period) following the date of issuance of the Bonds.

The Bonds are issued as "alternate bonds" under the Local Government Debt Reform Act for the purpose of raising moneys to construct, acquire and equip school buildings in and for the school district governed by the Board (the "School District").

We are of the opinion that:

1. The Board had and has the right and power to adopt the 2008 Authorizing Resolution and the Bond Resolution, to enter into the Indenture and to authorize the Bonds. The 2008 Authorizing Resolution and the Bond Resolution have each been duly adopted, are presently in full force and effect, are valid and binding upon the Board and are enforceable in accordance with their terms as part of its contract with the owners of the Bonds.

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

3. The Bonds have been duly authorized and issued in accordance with the 2008 Authorizing Resolution, the Bond Resolution and the Indenture, are valid and legally binding general obligations of the Board, are entitled to the benefits and security of the 2008 Authorizing Resolution, Bond Resolution and the Indenture and are enforceable in accordance with their terms.

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

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged State Aid Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged State Aid Revenues consist of the State Aid Revenues received by the Board in any year pursuant to Article 18 of the School Code not in excess of the amount available under the 2008 Authorizing Resolution and such pledge is on a parity with the pledge of such State Aid Revenues as security for the payment of other alternate bonds of the Board secured by a pledge of such State Aid Revenues and issued or to be issued pursuant to the 2008 Authorizing Resolution. The Pledged Taxes consist of ad valorem property taxes levied pursuant to the Bond Resolution. The Board has taken all necessary action to cause the County Collectors of the Counties of Cook and DuPage to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

6. Under existing law, the Bonds are “qualified school construction bonds” within the meaning of Section 54F of the Code, and if a taxpayer holds a Bond on one or more “credit allowance dates” (as defined in Section 54A(e)(1) of the Code) occurring during any taxable year, there will be allowed as a credit against the federal income tax imposed on such taxpayer for the taxable year an amount equal to the sum of the credits determined under Section 54A of the Code with respect to such dates. If there is continuing compliance with the requirements of the Code, we are of the opinion that the Bonds will continue to be qualified school construction bonds. Failure to comply with such requirements could result in the loss to the owners of the Bonds of the tax credit provided under Section 54A of the Code with respect to the Bonds.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the treatment of the Bonds as “qualified school construction bonds.” These requirements relate to, among other things, the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, and the use of the property financed with the proceeds of the Bonds. The Board has covenanted to comply with these requirements.

Interest and tax credits on the Bonds are not exempt from federal income taxation. Interest on the Bonds is not exempt from Illinois income taxes.

Section 54A(i) of the Code provides that, under regulations to be prescribed by the Secretary of the Treasury, there may be a separation (including at issuance) of the ownership of a Bond and the entitlement to a tax credit under said Section 54A with respect to such Bond. In case of any such separation, the credit under said Section 54A shall be allowed to the person who on the credit allowance date holds the instrument evidencing the entitlement to the credit and not to the holder of the Bond.

The advice contained herein cannot be used by any taxpayer, including the owners of the Bonds, for the purpose of avoiding penalties related to Federal income tax matters that may be imposed on the taxpayer. Taxpayers, including the owners of the Bonds, should seek advice based upon the taxpayer's particular circumstances from an independent tax advisor. This notice is intended to comply with the provisions of Section 10.35 of United States Treasury publication Circular 230.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the 2008 Authorizing Resolution, the Bond Resolution and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought.

Very truly yours,

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APPENDIX D

Table of Redemption Values

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APPENDIX D-I

Board of Education of the City of Chicago

TABLE OF REDEMPTION VALUES FOR TAX CREDITS AND PRINCIPAL STRIPS, PER \$40,000 DENOMINATION

<u>Credit Rate</u> 5.750%	<u>Bond Yield</u> 7.500%	<u>Denomination</u> 40,000	<u>Quarterly Credit</u> 575.00						
<u>Redemption Date</u>	<u>Credit 6/15/10</u>	<u>Credit 9/15/10</u>	<u>Credit 12/15/10</u>	<u>Credit 3/15/11</u>	<u>Credit 6/15/11</u>	<u>Credit 9/15/11</u>	<u>Credit 12/15/11</u>	<u>Credit 3/15/12</u>	<u>Credit 6/15/12</u>
12/17/09									
3/15/10	564	554	544	534	524	514	505	496	486
6/15/10		564	554	544	534	524	514	505	496
9/15/10			564	554	544	534	524	514	505
12/15/10				564	554	544	534	524	514
3/15/11					564	554	544	534	524
6/15/11						564	554	544	534
9/15/11							564	554	544
12/15/11								564	554
3/15/12									564
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Redemption	Credit	Credit	Credit	Credit	Credit	Credit	Credit	Credit	Credit	Credit
Date	9/15/12	12/15/12	3/15/13	6/15/13	9/15/13	12/15/13	3/15/14	6/15/14	9/15/14	12/15/14
12/17/09										
3/15/10	478	469	460	452	443	435	427	419	412	404
6/15/10	486	478	469	460	452	443	435	427	419	412
9/15/10	496	486	478	469	460	452	443	435	427	419
12/15/10	505	496	486	478	469	460	452	443	435	427
3/15/11	514	505	496	486	478	469	460	452	443	435
6/15/11	524	514	505	496	486	478	469	460	452	443
9/15/11	534	524	514	505	496	486	478	469	460	452
12/15/11	544	534	524	514	505	496	486	478	469	460
3/15/12	554	544	534	524	514	505	496	486	478	469
6/15/12	564	554	544	534	524	514	505	496	486	478
9/15/12		564	554	544	534	524	514	505	496	486
12/15/12			564	554	544	534	524	514	505	496
3/15/13				564	554	544	534	524	514	505
6/15/13					564	554	544	534	524	514
9/15/13						564	554	544	534	524
12/15/13							564	554	544	534
3/15/14								564	554	544
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Redemption Date	Credit 3/15/15	Credit 6/15/15	Credit 9/15/15	Credit 12/15/15	Credit 3/15/16	Credit 6/15/16	Credit 9/15/16	Credit 12/15/16	Credit 3/15/17	Credit 6/15/17
12/17/09										
3/15/10	397	389	382	375	368	361	355	348	342	336
6/15/10	404	397	389	382	375	368	361	355	348	342
9/15/10	412	404	397	389	382	375	368	361	355	348
12/15/10	419	412	404	397	389	382	375	368	361	355
3/15/11	427	419	412	404	397	389	382	375	368	361
6/15/11	435	427	419	412	404	397	389	382	375	368
9/15/11	443	435	427	419	412	404	397	389	382	375
12/15/11	452	443	435	427	419	412	404	397	389	382
3/15/12	460	452	443	435	427	419	412	404	397	389
6/15/12	469	460	452	443	435	427	419	412	404	397
9/15/12	478	469	460	452	443	435	427	419	412	404
12/15/12	486	478	469	460	452	443	435	427	419	412
3/15/13	496	486	478	469	460	452	443	435	427	419
6/15/13	505	496	486	478	469	460	452	443	435	427
9/15/13	514	505	496	486	478	469	460	452	443	435
12/15/13	524	514	505	496	486	478	469	460	452	443
3/15/14	534	524	514	505	496	486	478	469	460	452
6/15/14	544	534	524	514	505	496	486	478	469	460
9/15/14	554	544	534	524	514	505	496	486	478	469
12/15/14	564	554	544	534	524	514	505	496	486	478
3/15/15		564	554	544	534	524	514	505	496	486
6/15/15			564	554	544	534	524	514	505	496
9/15/15				564	554	544	534	524	514	505
12/15/15					564	554	544	534	524	514
3/15/16						564	554	544	534	524
6/15/16							564	554	544	534
9/15/16								564	554	544
12/15/16									564	554
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Redemption Date	Credit 9/15/17	Credit 12/15/17	Credit 3/15/18	Credit 6/15/18	Credit 9/15/18	Credit 12/15/18	Credit 3/15/19	Credit 6/15/19	Credit 9/15/19	Credit 12/15/19
12/17/09										
3/15/10	329	323	317	311	306	300	295	289	284	279
6/15/10	336	329	323	317	311	306	300	295	289	284
9/15/10	342	336	329	323	317	311	306	300	295	289
12/15/10	348	342	336	329	323	317	311	306	300	295
3/15/11	355	348	342	336	329	323	317	311	306	300
6/15/11	361	355	348	342	336	329	323	317	311	306
9/15/11	368	361	355	348	342	336	329	323	317	311
12/15/11	375	368	361	355	348	342	336	329	323	317
3/15/12	382	375	368	361	355	348	342	336	329	323
6/15/12	389	382	375	368	361	355	348	342	336	329
9/15/12	397	389	382	375	368	361	355	348	342	336
12/15/12	404	397	389	382	375	368	361	355	348	342
3/15/13	412	404	397	389	382	375	368	361	355	348
6/15/13	419	412	404	397	389	382	375	368	361	355
9/15/13	427	419	412	404	397	389	382	375	368	361
12/15/13	435	427	419	412	404	397	389	382	375	368
3/15/14	443	435	427	419	412	404	397	389	382	375
6/15/14	452	443	435	427	419	412	404	397	389	382
9/15/14	460	452	443	435	427	419	412	404	397	389
12/15/14	469	460	452	443	435	427	419	412	404	397
3/15/15	478	469	460	452	443	435	427	419	412	404
6/15/15	486	478	469	460	452	443	435	427	419	412
9/15/15	496	486	478	469	460	452	443	435	427	419
12/15/15	505	496	486	478	469	460	452	443	435	427
3/15/16	514	505	496	486	478	469	460	452	443	435
6/15/16	524	514	505	496	486	478	469	460	452	443
9/15/16	534	524	514	505	496	486	478	469	460	452
12/15/16	544	534	524	514	505	496	486	478	469	460
3/15/17	554	544	534	524	514	505	496	486	478	469
6/15/17	564	554	544	534	524	514	505	496	486	478
9/15/17		564	554	544	534	524	514	505	496	486
12/15/17			564	554	544	534	524	514	505	496
3/15/18				564	554	544	534	524	514	505
6/15/18					564	554	544	534	524	514
9/15/18						564	554	544	534	524
12/15/18							564	554	544	534
3/15/19								564	554	544
6/15/19									564	554
9/15/19										564
12/15/19										
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9/15/25										
12/15/25										

Redemption Date	Credit 3/15/20	Credit 6/15/20	Credit 9/15/20	Credit 12/15/20	Credit 3/15/21	Credit 6/15/21	Credit 9/15/21	Credit 12/15/21	Credit 3/15/22	Credit 6/15/22
12/17/09										
3/15/10	274	268	264	259	254	249	245	240	236	231
6/15/10	279	274	268	264	259	254	249	245	240	236
9/15/10	284	279	274	268	264	259	254	249	245	240
12/15/10	289	284	279	274	268	264	259	254	249	245
3/15/11	295	289	284	279	274	268	264	259	254	249
6/15/11	300	295	289	284	279	274	268	264	259	254
9/15/11	306	300	295	289	284	279	274	268	264	259
12/15/11	311	306	300	295	289	284	279	274	268	264
3/15/12	317	311	306	300	295	289	284	279	274	268
6/15/12	323	317	311	306	300	295	289	284	279	274
9/15/12	329	323	317	311	306	300	295	289	284	279
12/15/12	336	329	323	317	311	306	300	295	289	284
3/15/13	342	336	329	323	317	311	306	300	295	289
6/15/13	348	342	336	329	323	317	311	306	300	295
9/15/13	355	348	342	336	329	323	317	311	306	300
12/15/13	361	355	348	342	336	329	323	317	311	306
3/15/14	368	361	355	348	342	336	329	323	317	311
6/15/14	375	368	361	355	348	342	336	329	323	317
9/15/14	382	375	368	361	355	348	342	336	329	323
12/15/14	389	382	375	368	361	355	348	342	336	329
3/15/15	397	389	382	375	368	361	355	348	342	336
6/15/15	404	397	389	382	375	368	361	355	348	342
9/15/15	412	404	397	389	382	375	368	361	355	348
12/15/15	419	412	404	397	389	382	375	368	361	355
3/15/16	427	419	412	404	397	389	382	375	368	361
6/15/16	435	427	419	412	404	397	389	382	375	368
9/15/16	443	435	427	419	412	404	397	389	382	375
12/15/16	452	443	435	427	419	412	404	397	389	382
3/15/17	460	452	443	435	427	419	412	404	397	389
6/15/17	469	460	452	443	435	427	419	412	404	397
9/15/17	478	469	460	452	443	435	427	419	412	404
12/15/17	486	478	469	460	452	443	435	427	419	412
3/15/18	496	486	478	469	460	452	443	435	427	419
6/15/18	505	496	486	478	469	460	452	443	435	427
9/15/18	514	505	496	486	478	469	460	452	443	435
12/15/18	524	514	505	496	486	478	469	460	452	443
3/15/19	534	524	514	505	496	486	478	469	460	452
6/15/19	544	534	524	514	505	496	486	478	469	460
9/15/19	554	544	534	524	514	505	496	486	478	469
12/15/19	564	554	544	534	524	514	505	496	486	478
3/15/20		564	554	544	534	524	514	505	496	486
6/15/20			564	554	544	534	524	514	505	496
9/15/20				564	554	544	534	524	514	505
12/15/20					564	554	544	534	524	514
3/15/21						564	554	544	534	524
6/15/21							564	554	544	534
9/15/21								564	554	544
12/15/21									564	554
3/15/22										564
6/15/22										
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12/15/22										
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12/15/24										
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6/15/25										
9/15/25										
12/15/25										

Redemption Date	Credit 9/15/22	Credit 12/15/22	Credit 3/15/23	Credit 6/15/23	Credit 9/15/23	Credit 12/15/23	Credit 3/15/24	Credit 6/15/24	Credit 9/15/24	Credit 12/15/24
12/17/09										
3/15/10	227	223	219	215	211	207	203	199	196	192
6/15/10	231	227	223	219	215	211	207	203	199	196
9/15/10	236	231	227	223	219	215	211	207	203	199
12/15/10	240	236	231	227	223	219	215	211	207	203
3/15/11	245	240	236	231	227	223	219	215	211	207
6/15/11	249	245	240	236	231	227	223	219	215	211
9/15/11	254	249	245	240	236	231	227	223	219	215
12/15/11	259	254	249	245	240	236	231	227	223	219
3/15/12	264	259	254	249	245	240	236	231	227	223
6/15/12	268	264	259	254	249	245	240	236	231	227
9/15/12	274	268	264	259	254	249	245	240	236	231
12/15/12	279	274	268	264	259	254	249	245	240	236
3/15/13	284	279	274	268	264	259	254	249	245	240
6/15/13	289	284	279	274	268	264	259	254	249	245
9/15/13	295	289	284	279	274	268	264	259	254	249
12/15/13	300	295	289	284	279	274	268	264	259	254
3/15/14	306	300	295	289	284	279	274	268	264	259
6/15/14	311	306	300	295	289	284	279	274	268	264
9/15/14	317	311	306	300	295	289	284	279	274	268
12/15/14	323	317	311	306	300	295	289	284	279	274
3/15/15	329	323	317	311	306	300	295	289	284	279
6/15/15	336	329	323	317	311	306	300	295	289	284
9/15/15	342	336	329	323	317	311	306	300	295	289
12/15/15	348	342	336	329	323	317	311	306	300	295
3/15/16	355	348	342	336	329	323	317	311	306	300
6/15/16	361	355	348	342	336	329	323	317	311	306
9/15/16	368	361	355	348	342	336	329	323	317	311
12/15/16	375	368	361	355	348	342	336	329	323	317
3/15/17	382	375	368	361	355	348	342	336	329	323
6/15/17	389	382	375	368	361	355	348	342	336	329
9/15/17	397	389	382	375	368	361	355	348	342	336
12/15/17	404	397	389	382	375	368	361	355	348	342
3/15/18	412	404	397	389	382	375	368	361	355	348
6/15/18	419	412	404	397	389	382	375	368	361	355
9/15/18	427	419	412	404	397	389	382	375	368	361
12/15/18	435	427	419	412	404	397	389	382	375	368
3/15/19	443	435	427	419	412	404	397	389	382	375
6/15/19	452	443	435	427	419	412	404	397	389	382
9/15/19	460	452	443	435	427	419	412	404	397	389
12/15/19	469	460	452	443	435	427	419	412	404	397
3/15/20	478	469	460	452	443	435	427	419	412	404
6/15/20	486	478	469	460	452	443	435	427	419	412
9/15/20	496	486	478	469	460	452	443	435	427	419
12/15/20	505	496	486	478	469	460	452	443	435	427
3/15/21	514	505	496	486	478	469	460	452	443	435
6/15/21	524	514	505	496	486	478	469	460	452	443
9/15/21	534	524	514	505	496	486	478	469	460	452
12/15/21	544	534	524	514	505	496	486	478	469	460
3/15/22	554	544	534	524	514	505	496	486	478	469
6/15/22	564	554	544	534	524	514	505	496	486	478
9/15/22		564	554	544	534	524	514	505	496	486
12/15/22			564	554	544	534	524	514	505	496
3/15/23				564	554	544	534	524	514	505
6/15/23					564	554	544	534	524	514
9/15/23						564	554	544	534	524
12/15/23							564	554	544	534
3/15/24								564	554	544
6/15/24									564	554
9/15/24										564
12/15/24										
3/15/25										
6/15/25										
9/15/25										
12/15/25										

Redemption Date	Credit 3/15/25	Credit 6/15/25	Credit 9/15/25	Credit 12/15/25	Principal and Coupons
12/17/09					
3/15/10	189	185	182	178	18,848
6/15/10	192	189	185	182	19,026
9/15/10	196	192	189	185	19,208
12/15/10	199	196	192	189	19,393
3/15/11	203	199	196	192	19,582
6/15/11	207	203	199	196	19,774
9/15/11	211	207	203	199	19,970
12/15/11	215	211	207	203	20,169
3/15/12	219	215	211	207	20,372
6/15/12	223	219	215	211	20,579
9/15/12	227	223	219	215	20,790
12/15/12	231	227	223	219	21,005
3/15/13	236	231	227	223	21,224
6/15/13	240	236	231	227	21,447
9/15/13	245	240	236	231	21,674
12/15/13	249	245	240	236	21,905
3/15/14	254	249	245	240	22,141
6/15/14	259	254	249	245	22,381
9/15/14	264	259	254	249	22,626
12/15/14	268	264	259	254	22,875
3/15/15	274	268	264	259	23,129
6/15/15	279	274	268	264	23,388
9/15/15	284	279	274	268	23,652
12/15/15	289	284	279	274	23,920
3/15/16	295	289	284	279	24,194
6/15/16	300	295	289	284	24,473
9/15/16	306	300	295	289	24,757
12/15/16	311	306	300	295	25,046
3/15/17	317	311	306	300	25,341
6/15/17	323	317	311	306	25,641
9/15/17	329	323	317	311	25,947
12/15/17	336	329	323	317	26,258
3/15/18	342	336	329	323	26,575
6/15/18	348	342	336	329	26,898
9/15/18	355	348	342	336	27,227
12/15/18	361	355	348	342	27,563
3/15/19	368	361	355	348	27,905
6/15/19	375	368	361	355	28,253
9/15/19	382	375	368	361	28,608
12/15/19	389	382	375	368	28,969
3/15/20	397	389	382	375	29,337
6/15/20	404	397	389	382	29,712
9/15/20	412	404	397	389	30,094
12/15/20	419	412	404	397	30,483
3/15/21	427	419	412	404	30,880
6/15/21	435	427	419	412	31,284
9/15/21	443	435	427	419	31,696
12/15/21	452	443	435	427	32,115
3/15/22	460	452	443	435	32,542
6/15/22	469	460	452	443	32,977
9/15/22	478	469	460	452	33,420
12/15/22	486	478	469	460	33,872
3/15/23	496	486	478	469	34,332
6/15/23	505	496	486	478	34,801
9/15/23	514	505	496	486	35,279
12/15/23	524	514	505	496	35,765
3/15/24	534	524	514	505	36,261
6/15/24	544	534	524	514	36,766
9/15/24	554	544	534	524	37,280
12/15/24	564	554	544	534	37,804
3/15/25		564	554	544	38,338
6/15/25			564	554	38,882
9/15/25				564	39,436
12/15/25					40,000

APPENDIX D-II
Board of Education of the City of Chicago
TABLE OF REDEMPTION VALUES FOR TAX CREDITS AND PRINCIPAL STRIPS, PER \$100 PAR

Credit Rate Par Bond Yield
5.750% **7.500%**

Redemption Date	Credit 6/15/10	Credit 9/15/10	Credit 12/15/10	Credit 3/15/11	Credit 6/15/11	Credit 9/15/11	Credit 12/15/11	Credit 3/15/12	Credit 6/15/12
12/17/09									
3/15/10	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
6/15/10		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
9/15/10			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
12/15/10				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
3/15/11					1.4100	1.3850	1.3600	1.3350	1.3100
6/15/11						1.4100	1.3850	1.3600	1.3350
9/15/11							1.4100	1.3850	1.3600
12/15/11								1.4100	1.3850
3/15/12									1.4100
6/15/12									
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12/15/25									

Redemption Date	Credit 9/15/12	Credit 12/15/12	Credit 3/15/13	Credit 6/15/13	Credit 9/15/13	Credit 12/15/13	Credit 3/15/14	Credit 6/15/14	Credit 9/15/14	Credit 12/15/14
12/17/09										
3/15/10	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100
6/15/10	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300
9/15/10	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475
12/15/10	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675
3/15/11	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875
6/15/11	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075
9/15/11	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300
12/15/11	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500
3/15/12	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725
6/15/12	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950
9/15/12		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
12/15/12			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
3/15/13				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
6/15/13					1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
9/15/13						1.4100	1.3850	1.3600	1.3350	1.3100
12/15/13							1.4100	1.3850	1.3600	1.3350
3/15/14								1.4100	1.3850	1.3600
6/15/14									1.4100	1.3850
9/15/14										1.4100
12/15/14										
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Redemption Date	Credit 3/15/15	Credit 6/15/15	Credit 9/15/15	Credit 12/15/15	Credit 3/15/16	Credit 6/15/16	Credit 9/15/16	Credit 12/15/16	Credit 3/15/17	Credit 6/15/17
12/17/09										
3/15/10	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400
6/15/10	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550
9/15/10	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700
12/15/10	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875
3/15/11	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025
6/15/11	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200
9/15/11	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375
12/15/11	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550
3/15/12	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725
6/15/12	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925
9/15/12	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100
12/15/12	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300
3/15/13	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475
6/15/13	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675
9/15/13	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875
12/15/13	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075
3/15/14	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300
6/15/14	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500
9/15/14	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725
12/15/14	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950
3/15/15		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
6/15/15			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
9/15/15				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
12/15/15					1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
3/15/16						1.4100	1.3850	1.3600	1.3350	1.3100
6/15/16							1.4100	1.3850	1.3600	1.3350
9/15/16								1.4100	1.3850	1.3600
12/15/16									1.4100	1.3850
3/15/17										1.4100
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Redemption Date	Credit 9/15/17	Credit 12/15/17	Credit 3/15/18	Credit 6/15/18	Credit 9/15/18	Credit 12/15/18	Credit 3/15/19	Credit 6/15/19	Credit 9/15/19	Credit 12/15/19
12/17/09										
3/15/10	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975
6/15/10	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100
9/15/10	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225
12/15/10	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375
3/15/11	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500
6/15/11	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650
9/15/11	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775
12/15/11	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925
3/15/12	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075
6/15/12	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225
9/15/12	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400
12/15/12	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550
3/15/13	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700
6/15/13	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875
9/15/13	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025
12/15/13	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200
3/15/14	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375
6/15/14	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550
9/15/14	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725
12/15/14	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925
3/15/15	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100
6/15/15	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300
9/15/15	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475
12/15/15	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675
3/15/16	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875
6/15/16	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075
9/15/16	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300
12/15/16	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500
3/15/17	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725
6/15/17	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950
9/15/17		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
12/15/17			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
3/15/18				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
6/15/18					1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
9/15/18						1.4100	1.3850	1.3600	1.3350	1.3100
12/15/18							1.4100	1.3850	1.3600	1.3350
3/15/19								1.4100	1.3850	1.3600
6/15/19									1.4100	1.3850
9/15/19										1.4100
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Redemption Date	Credit 3/15/20	Credit 6/15/20	Credit 9/15/20	Credit 12/15/20	Credit 3/15/21	Credit 6/15/21	Credit 9/15/21	Credit 12/15/21	Credit 3/15/22	Credit 6/15/22
12/17/09										
3/15/10	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775
6/15/10	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900
9/15/10	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000
12/15/10	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125
3/15/11	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225
6/15/11	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350
9/15/11	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475
12/15/11	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600
3/15/12	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700
6/15/12	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850
9/15/12	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975
12/15/12	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100
3/15/13	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225
6/15/13	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375
9/15/13	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500
12/15/13	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650
3/15/14	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775
6/15/14	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925
9/15/14	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075
12/15/14	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225
3/15/15	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400
6/15/15	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550
9/15/15	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700
12/15/15	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875
3/15/16	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025
6/15/16	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200
9/15/16	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375
12/15/16	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550
3/15/17	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725
6/15/17	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925
9/15/17	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100
12/15/17	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300
3/15/18	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475
6/15/18	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675
9/15/18	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875
12/15/18	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075
3/15/19	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300
6/15/19	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500
9/15/19	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725
12/15/19	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950
3/15/20		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
6/15/20			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
9/15/20				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
12/15/20					1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
3/15/21						1.4100	1.3850	1.3600	1.3350	1.3100
6/15/21							1.4100	1.3850	1.3600	1.3350
9/15/21								1.4100	1.3850	1.3600
12/15/21									1.4100	1.3850
3/15/22										1.4100
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Redemption Date	Credit 9/15/22	Credit 12/15/22	Credit 3/15/23	Credit 6/15/23	Credit 9/15/23	Credit 12/15/23	Credit 3/15/24	Credit 6/15/24	Credit 9/15/24	Credit 12/15/24
12/17/09										
3/15/10	0.5675	0.5575	0.5475	0.5375	0.5275	0.5175	0.5075	0.4975	0.4900	0.4800
6/15/10	0.5775	0.5675	0.5575	0.5475	0.5375	0.5275	0.5175	0.5075	0.4975	0.4900
9/15/10	0.5900	0.5775	0.5675	0.5575	0.5475	0.5375	0.5275	0.5175	0.5075	0.4975
12/15/10	0.6000	0.5900	0.5775	0.5675	0.5575	0.5475	0.5375	0.5275	0.5175	0.5075
3/15/11	0.6125	0.6000	0.5900	0.5775	0.5675	0.5575	0.5475	0.5375	0.5275	0.5175
6/15/11	0.6225	0.6125	0.6000	0.5900	0.5775	0.5675	0.5575	0.5475	0.5375	0.5275
9/15/11	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775	0.5675	0.5575	0.5475	0.5375
12/15/11	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775	0.5675	0.5575	0.5475
3/15/12	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775	0.5675	0.5575
6/15/12	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775	0.5675
9/15/12	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900	0.5775
12/15/12	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000	0.5900
3/15/13	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125	0.6000
6/15/13	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225	0.6125
9/15/13	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350	0.6225
12/15/13	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475	0.6350
3/15/14	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600	0.6475
6/15/14	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700	0.6600
9/15/14	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850	0.6700
12/15/14	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975	0.6850
3/15/15	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100	0.6975
6/15/15	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225	0.7100
9/15/15	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375	0.7225
12/15/15	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500	0.7375
3/15/16	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650	0.7500
6/15/16	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775	0.7650
9/15/16	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925	0.7775
12/15/16	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075	0.7925
3/15/17	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225	0.8075
6/15/17	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400	0.8225
9/15/17	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550	0.8400
12/15/17	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700	0.8550
3/15/18	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875	0.8700
6/15/18	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025	0.8875
9/15/18	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200	0.9025
12/15/18	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375	0.9200
3/15/19	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550	0.9375
6/15/19	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725	0.9550
9/15/19	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925	0.9725
12/15/19	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100	0.9925
3/15/20	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300	1.0100
6/15/20	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475	1.0300
9/15/20	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675	1.0475
12/15/20	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875	1.0675
3/15/21	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075	1.0875
6/15/21	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300	1.1075
9/15/21	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500	1.1300
12/15/21	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725	1.1500
3/15/22	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950	1.1725
6/15/22	1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150	1.1950
9/15/22		1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400	1.2150
12/15/22			1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625	1.2400
3/15/23				1.4100	1.3850	1.3600	1.3350	1.3100	1.2850	1.2625
6/15/23					1.4100	1.3850	1.3600	1.3350	1.3100	1.2850
9/15/23						1.4100	1.3850	1.3600	1.3350	1.3100
12/15/23							1.4100	1.3850	1.3600	1.3350
3/15/24								1.4100	1.3850	1.3600
6/15/24									1.4100	1.3850
9/15/24										1.4100
12/15/24										
3/15/25										
6/15/25										
9/15/25										
12/15/25										

Redemption Date	Credit 3/15/25	Credit 6/15/25	Credit 9/15/25	Credit 12/15/25	Principal and Coupons
12/17/09					
3/15/10	0.4725	0.4625	0.4550	0.4450	47.1200
6/15/10	0.4800	0.4725	0.4625	0.4550	47.5650
9/15/10	0.4900	0.4800	0.4725	0.4625	48.0200
12/15/10	0.4975	0.4900	0.4800	0.4725	48.4825
3/15/11	0.5075	0.4975	0.4900	0.4800	48.9550
6/15/11	0.5175	0.5075	0.4975	0.4900	49.4350
9/15/11	0.5275	0.5175	0.5075	0.4975	49.9250
12/15/11	0.5375	0.5275	0.5175	0.5075	50.4225
3/15/12	0.5475	0.5375	0.5275	0.5175	50.9300
6/15/12	0.5575	0.5475	0.5375	0.5275	51.4475
9/15/12	0.5675	0.5575	0.5475	0.5375	51.9750
12/15/12	0.5775	0.5675	0.5575	0.5475	52.5125
3/15/13	0.5900	0.5775	0.5675	0.5575	53.0600
6/15/13	0.6000	0.5900	0.5775	0.5675	53.6175
9/15/13	0.6125	0.6000	0.5900	0.5775	54.1850
12/15/13	0.6225	0.6125	0.6000	0.5900	54.7625
3/15/14	0.6350	0.6225	0.6125	0.6000	55.3525
6/15/14	0.6475	0.6350	0.6225	0.6125	55.9525
9/15/14	0.6600	0.6475	0.6350	0.6225	56.5650
12/15/14	0.6700	0.6600	0.6475	0.6350	57.1875
3/15/15	0.6850	0.6700	0.6600	0.6475	57.8225
6/15/15	0.6975	0.6850	0.6700	0.6600	58.4700
9/15/15	0.7100	0.6975	0.6850	0.6700	59.1300
12/15/15	0.7225	0.7100	0.6975	0.6850	59.8000
3/15/16	0.7375	0.7225	0.7100	0.6975	60.4850
6/15/16	0.7500	0.7375	0.7225	0.7100	61.1825
9/15/16	0.7650	0.7500	0.7375	0.7225	61.8925
12/15/16	0.7775	0.7650	0.7500	0.7375	62.6150
3/15/17	0.7925	0.7775	0.7650	0.7500	63.3525
6/15/17	0.8075	0.7925	0.7775	0.7650	64.1025
9/15/17	0.8225	0.8075	0.7925	0.7775	64.8675
12/15/17	0.8400	0.8225	0.8075	0.7925	65.6450
3/15/18	0.8550	0.8400	0.8225	0.8075	66.4375
6/15/18	0.8700	0.8550	0.8400	0.8225	67.2450
9/15/18	0.8875	0.8700	0.8550	0.8400	68.0675
12/15/18	0.9025	0.8875	0.8700	0.8550	68.9075
3/15/19	0.9200	0.9025	0.8875	0.8700	69.7625
6/15/19	0.9375	0.9200	0.9025	0.8875	70.6325
9/15/19	0.9550	0.9375	0.9200	0.9025	71.5200
12/15/19	0.9725	0.9550	0.9375	0.9200	72.4225
3/15/20	0.9925	0.9725	0.9550	0.9375	73.3425
6/15/20	1.0100	0.9925	0.9725	0.9550	74.2800
9/15/20	1.0300	1.0100	0.9925	0.9725	75.2350
12/15/20	1.0475	1.0300	1.0100	0.9925	76.2075
3/15/21	1.0675	1.0475	1.0300	1.0100	77.2000
6/15/21	1.0875	1.0675	1.0475	1.0300	78.2100
9/15/21	1.1075	1.0875	1.0675	1.0475	79.2400
12/15/21	1.1300	1.1075	1.0875	1.0675	80.2875
3/15/22	1.1500	1.1300	1.1075	1.0875	81.3550
6/15/22	1.1725	1.1500	1.1300	1.1075	82.4425
9/15/22	1.1950	1.1725	1.1500	1.1300	83.5500
12/15/22	1.2150	1.1950	1.1725	1.1500	84.6800
3/15/23	1.2400	1.2150	1.1950	1.1725	85.8300
6/15/23	1.2625	1.2400	1.2150	1.1950	87.0025
9/15/23	1.2850	1.2625	1.2400	1.2150	88.1975
12/15/23	1.3100	1.2850	1.2625	1.2400	89.4125
3/15/24	1.3350	1.3100	1.2850	1.2625	90.6525
6/15/24	1.3600	1.3350	1.3100	1.2850	91.9150
9/15/24	1.3850	1.3600	1.3350	1.3100	93.2000
12/15/24	1.4100	1.3850	1.3600	1.3350	94.5100
3/15/25		1.4100	1.3850	1.3600	95.8450
6/15/25			1.4100	1.3850	97.2050
9/15/25				1.4100	98.5900
12/15/25					100.0000

APPENDIX D-III
Board of Education of the City of Chicago
TABLE OF PRINCIPAL, INTEREST & TAX CREDITS

DATE	Series 2009B Principal	Credit Rate	Credit Amount	Coupon Rate	Coupon Amount	Credit Amounts	
						per \$40,000	per \$100
12/17/09							
3/15/10			\$3,572,072		\$1,087,582		On 3/15/10
6/15/10			3,654,700		1,112,300		
9/15/10			3,654,700		1,112,300	\$562.00	\$1.40500
12/15/10			3,654,700		1,112,300		
3/15/11			3,654,700		1,112,300		Thereafter
6/15/11			3,654,700		1,112,300		
9/15/11			3,654,700		1,112,300	\$575.00	\$1.43750
12/15/11			3,654,700		1,112,300		
3/15/12			3,654,700		1,112,300		
6/15/12			3,654,700		1,112,300		
9/15/12			3,654,700		1,112,300		
12/15/12			3,654,700		1,112,300		
3/15/13			3,654,700		1,112,300		
6/15/13			3,654,700		1,112,300		
9/15/13			3,654,700		1,112,300		
12/15/13			3,654,700		1,112,300		
3/15/14			3,654,700		1,112,300		
6/15/14			3,654,700		1,112,300		
9/15/14			3,654,700		1,112,300		
12/15/14			3,654,700		1,112,300		
3/15/15			3,654,700		1,112,300		
6/15/15			3,654,700		1,112,300		
9/15/15			3,654,700		1,112,300		
12/15/15			3,654,700		1,112,300		
3/15/16			3,654,700		1,112,300		
6/15/16			3,654,700		1,112,300		
9/15/16			3,654,700		1,112,300		
12/15/16			3,654,700		1,112,300		
3/15/17			3,654,700		1,112,300		
6/15/17			3,654,700		1,112,300		
9/15/17			3,654,700		1,112,300		
12/15/17			3,654,700		1,112,300		
3/15/18			3,654,700		1,112,300		
6/15/18			3,654,700		1,112,300		
9/15/18			3,654,700		1,112,300		
12/15/18			3,654,700		1,112,300		
3/15/19			3,654,700		1,112,300		
6/15/19			3,654,700		1,112,300		
9/15/19			3,654,700		1,112,300		
12/15/19			3,654,700		1,112,300		
3/15/20			3,654,700		1,112,300		
6/15/20			3,654,700		1,112,300		
9/15/20			3,654,700		1,112,300		
12/15/20			3,654,700		1,112,300		
3/15/21			3,654,700		1,112,300		
6/15/21			3,654,700		1,112,300		
9/15/21			3,654,700		1,112,300		
12/15/21			3,654,700		1,112,300		
3/15/22			3,654,700		1,112,300		
6/15/22			3,654,700		1,112,300		
9/15/22			3,654,700		1,112,300		
12/15/22			3,654,700		1,112,300		
3/15/23			3,654,700		1,112,300		
6/15/23			3,654,700		1,112,300		
9/15/23			3,654,700		1,112,300		
12/15/23			3,654,700		1,112,300		
3/15/24			3,654,700		1,112,300		
6/15/24			3,654,700		1,112,300		
9/15/24			3,654,700		1,112,300		
12/15/24			3,654,700		1,112,300		
3/15/25			3,654,700		1,112,300		
6/15/25			3,654,700		1,112,300		
9/15/25			3,654,700		1,112,300		
12/15/25	254,240,000	5.750%	3,654,700	1.750%	1,112,300		
TOTALS:	\$254,240,000		\$233,818,172		\$72,250,064		

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NEIGHBORHOODS

Alive!



BUILDING CHICAGO TOGETHER

RICHARD M. DALEY, MAYOR



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