

In the opinion of Katten Muchin Rosenman LLP and Pugh, Jones, Johnson & Quandt, P.C., Co-Bond Counsel, interest on the Series 2010C Bonds and Series 2010D Bonds is includable in gross income for federal income tax purposes. Interest on the Bonds is not exempt from Illinois income taxes. See "TAX MATTERS" herein.



\$382,125,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO



\$257,125,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010C
(Taxable Qualified School Construction Bonds –
Direct Payment)

\$125,000,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010D
(Taxable Build America Bonds –
Direct Payment)

Dated: Date of Issuance

Due: See inside cover

The Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds – Direct Payment) (the "**Series 2010C Bonds**") and the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds – Direct Payment) (the "**Series 2010D Bonds**", together with the Series 2010C Bonds, each a "**Series**" and collectively, 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**" and "**ESTIMATED SOURCES AND USES OF FUNDS**".

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 (i) together with the currently outstanding Series 2010AB Bonds (as defined herein) and the Series 2010FG Bonds (as defined herein) expected by the Board to be issued on or about the date of issuance of the Bonds, from Pledged State Aid Revenues (as defined herein) and (ii) the Pledged Taxes (as defined herein), 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 Series 2010C Bonds are also payable from all Funds, Accounts and Sub-Accounts pledged as security for the Series 2010C Bonds pursuant to the Trust Indenture dated as of October 1, 2010, between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Series 2010C Trustee**"). The Series 2010D Bonds are also payable from all Funds, Accounts and Sub-Accounts pledged as security for the Series 2010D Bonds pursuant to the Trust Indenture dated as of October 1, 2010, between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Series 2010D Trustee**" and, together with the Series 2010C Trustee, the "**Trustees**"). See "**SECURITY FOR THE BONDS**".

The Series 2010C Bonds are being issued as taxable "qualified school construction bonds" as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "**Code**"). The Series 2010D Bonds are being issued as taxable "Build America Bonds" pursuant to Section 54AA of the Code.

The Series 2010C Bonds mature on November 1, 2029 and bear interest at the rate of 6.319% per annum, payable on each May 1 and November 1, commencing on May 1, 2011. Information about the maturity, the interest rate, price and CUSIP number of the Series 2010C Bonds is set forth on the inside cover.

The Series 2010D Bonds mature on December 1, 2040 and bear interest at the rate of 6.519% per annum, payable on each June 1 and December 1, commencing June 1, 2011. Information about the maturity, interest rate, price and CUSIP number of the Series 2010D Bonds is set forth on the inside cover.

The Series 2010C Bonds are subject to Make-Whole Optional, Extraordinary Optional and Extraordinary Mandatory Redemption prior to maturity, as described herein. The Series 2010D Bonds are subject to Make-Whole Optional, Extraordinary Optional and Mandatory Sinking Fund Redemption prior to maturity as described herein. See "THE BONDS – Redemption of the Bonds" herein.

The Bonds of each Series will be initially issued in book-entry form only, in denominations of \$5,000 or integral multiples thereof. The Depository Trust Company, New York, New York ("**DTC**") will act as securities depository for the Bonds. See "**THE BONDS—Book-Entry Only System**" herein.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinions of Katten Muchin Rosenman LLP, Chicago, Illinois and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel Quarles & Brady LLP, Chicago, Illinois, and for the Underwriters by their co-counsel, Perkins Coie LLP, Chicago, Illinois and 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 November 2, 2010.

*SENIOR MANAGER FOR SERIES 2010C BONDS AND
 CO-MANAGER FOR SERIES 2010D BONDS:*

LOOP CAPITAL MARKETS

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CO-MANAGERS:

BMO CAPITAL MARKETS

CABRERA CAPITAL MARKETS, LLC

BOFA MERRILL LYNCH

BOARD OF EDUCATION OF THE CITY OF CHICAGO

\$257,125,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010C
(Taxable Qualified School Construction Bonds – Direct Payment)

MATURITY (November 1)	PRINCIPAL AMOUNT	INTEREST RATE	PRICE	CUSIP ¹
2029	\$257,125,000	6.319%	100%	167505NG7

\$125,000,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010D
(Taxable Build America Bonds – Direct Payment)

\$125,000,000 6.519% Term Bonds due December 1, 2040; Price: 100%; CUSIP¹ 167505NH5

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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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\$382,125,000

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

\$257,125,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010C
(Taxable Qualified School Construction Bonds –
Direct Payment)

\$125,000,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2010D
(Taxable Build America Bonds –
Direct Payment)

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 two series of bonds (each, a “**Series**”) consisting of its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds – Direct Payment) (the “**Series 2010C Bonds**”) and its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds – Direct Payment) (the “**Series 2010D Bonds**”, together with the Series 2010C Bonds, each a “**Series**” and collectively, 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 INDENTURES.”**

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 Series 2010C Bonds will be issued under a Trust Indenture dated as of October 1, 2010 (the “**Series 2010C Indenture**”), by and between the Board and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee (the “**Series 2010C Trustee**”). The Series 2010D Bonds will be issued under a Trust Indenture dated as of October 1, 2010 (the “**Series 2010D Indenture**” and, together with the Series 2010C Indenture, the “**Indentures**”), by and between the Board and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee (the “**Series 2010D Trustee**” and, together with the Series 2010C Trustee, the “**Trustees**”). The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit.

Series 2010C Bonds and 2010D Bonds are issued pursuant to the Recovery Act

Series 2010C Bonds are “Qualified School Construction Bonds”

The Board (i) has irrevocably designated the Series 2010C Bonds as “qualified school construction bonds” under Section 54F of the Internal Revenue Code of 1986, as amended (the “**Code**”) and (ii) has made an irrevocable election to treat the Series 2010C Bonds as “specified tax credit bonds” under Subsection 6431(f) of the Code, which was added to the Code by the Hiring Incentives to Restore

Employment Act of 2010. Section 54F was added to the Code by the provisions of the American Recovery and Reinvestment Act (the “**Recovery Act**”). As a result of the designation and election described above, holders of the Series 2010C Bonds will *not* receive any tax credits with respect to the Series 2010C Bonds, and interest on the Series 2010C Bonds will be included in gross income for federal income tax purposes. See “**TAX MATTERS**” herein. The Board will be entitled to receive periodic cash payments from the federal government (“**QSCB Subsidy Payments**”) on each interest payment date for the Series 2010C Bonds at a rate equal to 5.10% per annum, being the lesser of (i) the amount of interest payable on the Series 2010C Bonds or (ii) the amount of the federal tax credits that would otherwise have been available to holders of the Series 2010C Bonds under Section 54A(b) of the Code, provided that the Board makes certain required filings and continues to satisfy certain other requirements set forth in the Code and related IRS pronouncements.

The Board expects to spend the proceeds of the Series 2010C Bonds within 36 months following the delivery thereof. Any Series 2010C Bond proceeds that remain unexpended 36 months following the date of delivery of the Series 2010C Bonds, subject to any extension granted by the Internal Revenue Service, are required to be applied to the extraordinary mandatory redemption of Series 2010C Bonds. See “**THE BONDS – Redemption – Redemption of Series 2010C Bonds – Extraordinary Mandatory Redemption**”.

The total amount of “qualified school construction bonds” issuable nationally in calendar year 2010 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 \$257,127,000. The Series 2010C Bonds are the only bonds issued by the Board pursuant to the Allocation and the principal amount of the Series 2010C Bonds is not in excess of the Allocation.

The Board is not pledging receipts of the QSCB Subsidy Payments to the payment of the Series 2010C Bonds or any other obligations of the Board and is not covenanting to maintain the status of the Series 2010C Bonds as “qualified school construction bonds”.

Series 2010D Bonds are “Build America Bonds”

The Board has made the irrevocable election to have Section 54AA of the Code apply to the Series 2010D Bonds so the Series 2010D Bonds may qualify as “build America bonds” under Code Section 54AA(d). Section 54AA was added to the Code by the Recovery Act. The Board is further making the irrevocable election to have Section 54AA(g) of the Code apply to the Series 2010D Bonds so the Series 2010D Bonds may qualify as “qualified bonds” under Code Section 54AA(g) in order to receive the refundable credits allowed to issuers pursuant to Sections 54AA(g)(1) and 6431 of the Code with respect to “qualified bonds” (the “**Build America Subsidy Revenues**”). Under current law, the Build America Subsidy Payments are to be paid by the United States directly to any issuer of bonds that qualify as “build America bonds” and as “qualified bonds” in an amount equal to 35% of the interest payable by such issuer on such bonds on each interest payment date, provided that certain requirements, as described in the Code and related IRS pronouncements, as to the uses and investment of the bond proceeds and other matters, are continuously satisfied by such issuer.

The Board is not pledging receipts of the Build America Subsidy Payments to the payment of the Series 2010D Bonds or any other obligations of the Board and is not covenanting to maintain the status of the Series 2010D Bonds as “build America bonds”.

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 July 22, 2009 (the “**2009 Authorization**”) authorizing the issuance of Alternate Bonds in an aggregate principal amount not to exceed \$2,300,000,000 which could be made payable from various sources of Alternate Revenues including not more than \$300,000,000 of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code. On April 28, 2010, the Board adopted Resolution 10-0428-RS1, as subsequently amended on September 22, 2010 by Amended Resolution 10-0922-RS1 authorizing the issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues), in an aggregate amount not to exceed \$800,000,000 (the “**Bond Resolution**” and, together with the 2009 Authorization, the “**Resolutions**”) which authorized the issuance of the Bonds.

Security for the Bonds

The Bonds of each Series will be secured by and are payable (i) together with the currently outstanding Series 2010AB Bonds (as defined herein), the Series 2010FG Bonds (as defined herein) expected by the Board to be issued on or about the date of issuance of the Bonds and such Additional Bonds (as defined herein) as may be issued in the future, 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 Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the respective Indentures as security for such Bonds (the “**Pledged Taxes**”) and (iii) (A) from all Funds, Accounts and Sub-Accounts pledged to the payment of the Series 2010C Bonds pursuant to the Series 2010C Indenture, including moneys deposited annually by the Board in the Principal Sub-Account (each a mandatory “**Series 2010C Annual Sinking Fund Payment**”) for the purpose of paying the principal of the Series 2010C Bonds at maturity and (B) with respect to the Series 2010D Bonds, from all Funds, Accounts and Sub-Accounts pledged to the payment of the Series 2010D Bonds pursuant to the Series 2010D Indenture. 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 Series 2010C Annual Sinking Fund Payments. 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. For a discussion of other obligations of the Board payable from Pledged State Aid Revenues available for bonds issued under the 2009 Authorization, see “**2009 Authorization Bonds and Additional Bonds**” below.

Subsequent to the sale of the Bonds to the Underwriters, the Board entered into separate contracts to sell, subject to certain conditions contained therein, for delivery on or about the date of issuance of the Bonds, its \$183,750,000 aggregate principal amount of Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F (the “**Series 2010F Bonds**”) and its \$72,915,000 aggregate principal amount of Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G (the “**Series 2010G Bonds**” and, together with the Series 2010F Bonds, the “**Series 2010FG Bonds**”) primarily to pay the costs of the refunding and redemption of certain outstanding bonds of the Board. The Series 2010FG Bonds have been sold to purchasers other than the Underwriters. The Series 2010FG Bonds will be issued pursuant to the Resolutions as Alternate Bonds payable from the Pledged State Aid Revenues.

2009 Authorization Bonds and Additional Bonds

Alternate Bonds issued under the 2009 Authorization are currently outstanding. See “**SECURITY FOR THE BONDS – General**” and “**–General State Aid.**” The Board’s Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A in the original aggregate principal amount of \$48,910,000 and its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B in the original aggregate principal amount of \$157,055,000 (collectively, the “**Series 2010AB Bonds**” and, together with the Bonds and the Series 2010FG Bonds, the “**2009 Authorization Bonds**”) are the only Alternate Bonds currently outstanding under the 2009 Authorization. After issuance of the Bonds and the Series 2010FG Bonds, \$1,455,245,000 aggregate principal amount of Alternate Bonds will remain authorized and unissued under the 2009 Authorization. All of the 2009 Authorization Bonds are Alternate Bonds payable from the State Aid Revenues available under the 2009 Authorization.

The Board has 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, the Series 2010FG Bonds expected to be issued by the Board and the Series 2010AB Bonds. For additional information see “**SECURITY FOR THE BONDS – Additional Bonds Payable From Pledged State Aid Revenues**” and “**– Other Additional Indebtedness.**”

Other Alternate Bonds

The Board has issued and currently has outstanding \$4.9 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.**”

THE BONDS

General

As described above, the Board has made the irrevocable designation of the Series 2010C Bonds as “qualified school construction bonds” under the provisions of the Recovery Act and as defined in Section 54F of the Code and has made the irrevocable election to have Section 54AA of the Code apply to the Series 2010D Bonds so the Series 2010D Bonds may qualify as “build America bonds” under Code Section 54AA(d).

The Series 2010C Bonds will bear interest at the rate of 6.319% per annum and will mature on November 1, 2029. The Series 2010D Bonds will bear interest at the rate of 6.519% per annum and will mature on December 1, 2040, subject to mandatory sinking fund redemption prior to maturity as described under the caption “**THE BONDS – Redemption – Redemption of Series 2010D Bonds – Mandatory Sinking Fund Redemption**”.

The Bonds of each Series shall be issued only in fully registered form without coupons and shall be dated the date of issuance. Each Bond shall bear interest from the interest payment date to which

interest has been paid or as of the date on which it is authenticated prior to the first date on which interest is to be paid, which interest, (i) in the case of the Series 2010C Bonds, shall be payable on May 1 and November 1 of each year, commencing May 1, 2011 and (ii) in the case of the Series 2010D Bonds, shall be payable on June 1 and December 1 of each year, commencing June 1, 2011. Interest on the Bonds of each Series shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds of each Series shall be issued in denominations of \$5,000 or any integral multiple thereof (the “**Authorized Denominations**”) (but no single Bond shall represent principal maturing on more than one date). Interest on the Bonds of each Series will be payable on each interest payment date to the person in whose name such Bond is registered on the fifteenth day (whether or not a Business Day) of the calendar month next preceding each interest payment date. See **APPENDIX B — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

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

Redemption

Redemption of Series 2010C Bonds

Make-Whole Optional Redemption. The Series 2010C Bonds are subject to redemption prior to maturity at the option of the Board, in whole or in part and, if in part, in such principal amounts as the Board shall determine, selected as described under “**Redemption Procedures**” below, in Authorized Denominations, on any Business Day, at the applicable “**Make-Whole Redemption Price**” (as defined below).

Extraordinary Optional Redemption. The Series 2010C Bonds are subject to extraordinary redemption at the option of the Board, in whole or in part and, if in part, in such principal amounts as the Board shall determine, selected as described under “**Redemption Procedures**” below, in Authorized Denominations, at the applicable Make-Whole Redemption Price, on any date on or after the date that (i) a change has occurred to Section 54A, Section 54F or Section 6431 of the Code, or to any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, pursuant to which the Board’s QSCB Subsidy Payment from the United States Treasury with respect to interest paid on the Bonds is reduced or eliminated or (ii) the United States Treasury fails to make such a QSCB Subsidy Payment to which the Board is entitled and such failure is not caused by any action by or failure to act by the Board or any agent of the Board.

Extraordinary Mandatory Redemption. The Series 2010C Bonds are subject to extraordinary mandatory redemption within 90 days after the Expenditure Termination Date (as defined below), in

whole or in part and, if in part, selected as described under “– **Redemption Procedures**” below in Authorized Denominations, at a redemption price of par plus accrued interest to the redemption date, in a principal amount equal to the sum of (i) the unexpended Available Project Proceeds (as defined below) as of the Expenditure Termination Date and (ii) such additional amount so that the aggregate principal amount of the Series 2010C Bonds to be redeemed is in an Authorized Denomination. The Trustee shall select the date of redemption, which date shall be within 90 days after the Expenditure Termination Date and give notice thereof as described below under “– **Notice of Redemption**”. If the Expenditure Termination Date is extended to a date later than the third anniversary date of the date of issuance of the Series 2010C Bonds, the Board shall file with the Trustee a written notice of the new Expenditure Termination Date.

“**Available Project Proceeds**” means the excess of the proceeds of sale of the Series 2010C Bonds, over the issuance costs financed by the Series 2010C Bonds (to the extent that such costs do not exceed two percent of such proceeds), and the proceeds from any investment of such excess.

“**Expenditure Termination Date**” means 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.

Pursuant to the Undertaking (as defined herein), the Board has covenanted to provide notice of its final expenditure of the proceeds of the Series 2010C Bonds from the Series 2010C 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.

Redemption of Series 2010D Bonds

Make-Whole Optional Redemption. The Series 2010D Bonds are subject to redemption at the option of the Board, in whole or in part and, if in part, in such principal amounts as the Board shall determine, selected as described under “– **Redemption Procedures**” below, in Authorized Denominations on any Business Day, at the applicable Make-Whole Redemption Price.

Extraordinary Optional Redemption. The Series 2010D Bonds are subject to redemption prior to maturity at the option of the Board, in whole or in part and, if in part, in such principal amounts as the Board shall determine, selected as described under “– **Redemption Procedures**” below), in Authorized Denominations on any Business Day upon the occurrence of an Extraordinary Event (defined below), at the applicable Make-Whole Redemption Price.

“**Extraordinary Event**” means a change that has occurred to Section 54AA or 6431 of the Code (as such sections were added by Section 1531 of Title I of Division B of the Recovery Act, pertaining to Build America Bonds), or to any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such section or any other determination by the Internal Revenue Service or the United States Department of the Treasury, pursuant to which the Build America Subsidy Revenues are reduced or eliminated, and which is not the result of any act or omission by the Board to satisfy the requirements to qualify to receive the Build America Subsidy Revenues.

Mandatory Sinking Fund Redemption. The Series 2010D Bonds are subject to mandatory sinking fund redemption prior to maturity, in part selected as described under “– **Redemption**

Procedures” below, at a redemption price equal to the principal amount thereof, plus accrued interest, in the aggregate principal amounts set forth in the following table:

Redemption Date (December 1)	Principal Amount
2037	\$18,490,000
2038	20,025,000
2039	21,665,000
2040 (Maturity)	64,820,000

At its option, to be exercised on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2010D Bonds, the Board may (i) deliver to the Series 2010D Trustee for cancellation, Series 2010D Bonds or portions thereof in Authorized Denominations or (ii) receive a credit in respect of its mandatory sinking fund redemption obligation for such Series 2010D Bonds or portions thereof in Authorized Denominations which prior to said date have been redeemed (otherwise than through the operation of such mandatory sinking fund redemption) and canceled by the Series 2010D Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such Series 2010D Bond or portion thereof subject to mandatory sinking fund redemption so delivered or previously redeemed shall be credited against future mandatory sinking fund redemption obligations on Series 2010D Bonds in such order as the Board shall designate, or if no such designation is made, in chronological order, the principal amount of such Bonds to be redeemed by operation of such mandatory redemption to be accordingly reduced.

Make-Whole Redemption Price for Series 2010C Bonds and Series 2010D Bonds

As used above, “**Make-Whole Redemption Price**” means the greater of (i) 100% of the principal amount of the Series 2010C Bonds or Series 2010D Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2010C Bonds or Series 2010D Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2010C Bonds or Series 2010D Bonds are to be redeemed, discounted to the date on which the Series 2010D Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the “**Treasury Rate**” (defined below) plus the “**Treasury Spread**” (as defined below); plus, in each case, accrued and unpaid interest on such Series 2010C Bonds or Series 2010D Bonds to be redeemed on the applicable redemption date.

“**Treasury Rate**” means, with respect to any redemption date for a particular Series 2010C Bond or Series 2010D Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

“**Treasury Spread**” means (i) with respect to the optional redemptions described above under “**Redemption of Series 2010C Bonds – Make-Whole Optional Redemption**” and “**Redemption of Series 2010D Bonds – Make-Whole Optional Redemption**”, the sum of 35 basis points and (ii) with respect to the extraordinary optional redemptions described above under “**Redemption of Series 2010C Bonds – Extraordinary Optional Redemption**” and “**Redemption of Series 2010D Bonds – Extraordinary Optional Redemption**”, the sum of 100 basis points.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series 2010C Bond or Series 2010D Bond to be redeemed, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of such Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the Board.

“Reference Treasury Dealer” means each of the four firms, specified by the Board from time to time, that are primary United States Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Board will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at least three business days but not more than 45 calendar days preceding such redemption date.

In each case, the Chief Financial Officer of the Board shall determine and transmit the applicable Make-Whole Redemption Price on such dates and to such parties as shall be necessary to effectuate the applicable redemption.

Redemption Procedures

In the case of any redemption of Bonds of any Series at the option of the Board, the Board shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, and of the principal amounts of the Bonds of such Series to be redeemed. Such notice shall be given at least 60 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in the Indenture, (i) there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash and/or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds of such Series to be redeemed on the specified redemption date at their redemption price plus interest accrued and unpaid to the date fixed for redemption; such amount and moneys shall be held in a separate, segregated account for the benefit of the registered owners of the Bonds so called for redemption, or (ii) such redemption notice given under certain provisions in the applicable Indenture may state that any redemption is conditional on such funds being deposited on the redemption date, and that failure to deposit such funds shall not constitute an Event of Default under the applicable Indenture.

Whenever the Series 2010D Trustee is required to redeem Series 2010D Bonds pursuant to the mandatory sinking fund provisions described above, the Series 2010D Trustee shall select the Bonds of such Series to be redeemed, give the notice of redemption and pay the redemption price thereof, plus interest accrued and unpaid to the date fixed for redemption without further direction from the Board.

While the Bonds of any Series are registered in the Book-Entry Only System and so long as DTC or a successor securities depository is the sole registered owner of such Bonds, if less than all of the Series 2010C Bonds and Series 2010D Bonds within either Series are to be redeemed prior to maturity, the Trustee shall instruct DTC to provide for the pro-rata redemption following its procedures as a Pro-Rata Pass-Through Distribution of Principal or if DTC procedures do not allow for pro-rata pass-through distribution of principal, the Series 2010C Bonds or Series 2010D Bonds to be redeemed shall be selected on a pro rata basis; *provided* that, so long as such Bonds are registered in the Book-Entry Only System, the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC then in effect. See “— **Book-Entry Only System**” below.

It is the Board’s intent that redemption allocations of Series 2010C Bonds or Series 2010D Bonds made by DTC be made on a pro-rata pass-through distribution of principal basis as described above. However, none of the Board, the Underwriters or either of the Trustees can provide any assurance that DTC, DTC’s Participants or any other intermediary will allocate the redemption of Series 2010C Bonds or Series 2010D Bonds on such basis, nor will the Board, the Underwriters or either Trustee be responsible for any failure of DTC, DTC’s Participants or any other intermediary to do so. If the DTC operational arrangements do not allow for the redemption of Bonds on a pro-rata pass-through distribution of principal basis, then the Series 2010C Bonds or Series 2010D Bonds to be redeemed will be selected for redemption on a pro-rata basis.

Whenever Bonds are redeemed under any provision of the Indentures, the particular Bonds or portion thereof to be redeemed shall be selected as follows: (i) any Bond of a denomination of more than \$5,000 shall be in the principal amount of an Authorized Denomination and (ii) in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of denominations of \$5,000 which is obtained by dividing the principal amount of such Bond to be redeemed, in part by \$5,000. If all Bonds are held in book-entry only form, the particular Bonds or portions thereof to be redeemed shall be selected by the securities depository for the Bonds in such manner as such securities depository shall determine.

Notice of Redemption. For a description of the giving of notices while the Bonds are in the book-entry only system, see “— **Book-Entry Only System**” below. When the Trustee shall receive notice from the Board of its election or direction to redeem Bonds of a Series or when the Trustee is required to redeem Bonds of a Series pursuant to any applicable provision of the Indentures as described above, the Trustee shall give notice, in the name of the Board, of the redemption of such Bonds, which notice shall specify the CUSIP number of the Bonds to be redeemed, the date fixed for the redemption, and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Bonds of any like Series are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds of a Series to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. Such notice shall further state that on the redemption date there will become due and payable the redemption price of each such Bond to be redeemed, or the redemption price of the specified portions of the principal thereof in the case of Bonds of a Series to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date, interest thereon shall cease to accrue and be payable.

The Trustee shall mail copies of such notice by first class mail, postage prepaid, not less than 30 days and not more than 60 days before the date fixed for redemption, to the registered owners of the Bonds of the Series to be redeemed at their addresses as shown on the registration books of the Board maintained by the Registrar; *provided*, that if all Bonds to be redeemed are held in book entry only form, such notice may be given pursuant to the then existing agreement with the securities depository for such Bonds. The failure of the Trustee to give notice to a registered owner of any Bond of a Series subject to redemption or any defect in such notice shall not affect the validity the redemption of any other Bonds of such Series as to which proper notice was given.

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 Series or portion of a Series (which portion shall be selected by lot by the applicable Trustee), the principal or redemption price, if applicable, and interest on such Bonds, at the times and in the manner provided in such Bonds and the applicable 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 Bonds of a Series 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.

“**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 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 of each Series 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 Series of the Bonds in the aggregate principal amount of such Series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides 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. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the Book-Entry 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 the Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial

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

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

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

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

Discontinuance of DTC Services

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

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 will 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.

Use of Certain Terms in Other Sections of the Official Statement

WHILE THE BONDS OF A SERIES ARE IN THE BOOK-ENTRY SYSTEM, REFERENCE IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT TO OWNERS OF SUCH BONDS SHOULD BE READ TO INCLUDE ANY PERSON FOR WHOM A PARTICIPANT ACQUIRES AN INTEREST IN SUCH BONDS, BUT (I) ALL RIGHTS OF OWNERSHIP, AS DESCRIBED HEREIN, MUST BE EXERCISED THROUGH DTC AND THE BOOK-ENTRY SYSTEM AND (II) NOTICES THAT ARE TO BE GIVEN TO REGISTERED OWNERS BY THE TRUSTEE WILL BE GIVEN ONLY TO DTC. DTC IS REQUIRED TO FORWARD (OR CAUSE TO BE FORWARDED) THE NOTICES TO THE PARTICIPANTS BY ITS USUAL PROCEDURES SO THAT SUCH PARTICIPANTS MAY FORWARD (OR CAUSE TO BE FORWARDED) SUCH NOTICES TO THE BENEFICIAL OWNERS.

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:

SOURCES OF FUNDS	SERIES 2010C BONDS	SERIES 2010D BONDS	TOTAL
Par Amount of Bonds	<u>\$257,125,000</u>	<u>\$125,000,000</u>	<u>\$382,125,000</u>
Total Sources of Funds	\$257,125,000	\$125,000,000	\$382,125,000
USES OF FUNDS			
Deposit to Project Funds	\$255,196,094	\$124,057,613	\$379,253,707
Costs of Issuance ⁽¹⁾	<u>1,928,906</u>	<u>942,387</u>	<u>2,871,293</u>
Total Uses of Funds	<u>\$257,125,000</u>	<u>\$125,000,000</u>	<u>\$382,125,000</u>

⁽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 of each Series will be issued pursuant to the School Code, the Debt Reform Act, the Resolutions and the respective Indentures. 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 of each Series will be secured by and are payable (i) together with the currently outstanding Series 2010AB Bonds and the Series 2010FG Bonds expected by the Board to be issued on or about the date of issuance of the Bonds, from 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 \$300,000,000 available under the 2009

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 respective Indentures as security for such Bonds (the “**Pledged Taxes**”), (iii) (A) from all Funds, Accounts and Sub-Accounts pledged to the payment of the Series 2010C Bonds pursuant to the Series 2010C Indenture, including the Series 2010C Annual Sinking Fund Payments for the purpose of paying the principal of the Series 2010C Bonds at maturity and (B) with respect to the Series 2010D Bonds, from all Funds, Accounts and Sub-Accounts pledged to the payment of the Series 2010D Bonds pursuant to the Series 2010D Indenture and (iv) any and all other moneys, securities and property furnished from time to time to the applicable Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the respective Indentures. As described herein, the Pledged Taxes have been levied in the Bond Resolution 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 of a Series. 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 public elementary and secondary schools in the State of Illinois (the “**State**”). 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 2001 through 2011, 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 2001 – 2011
(Dollars in Millions)

Fiscal Year	Total GSA Claim ⁽¹⁾	Supplemental General State Aid Allocation	Unrestricted GSA General Fund Deposit ⁽²⁾
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	1,152.2	261.0	891.2
2011	1,147.2	261.0	886.2

(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**”).

The Board has experienced delays in the receipt of certain funding payments due from the State. However, payments of GSA from the State have always been received by the Board on time. For a discussion of the impact of these delays on the Board’s 2010 operations and 2011 budget, see “**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Overview of Board’s Fiscal Year 2010 Budget and Recent Financial Information Concerning the Board.**”

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds of each Series 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 each of the Indentures 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 several Series of Bonds issued thereunder. 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

Series 2010C Indenture

The Series 2010C Indenture establishes the Debt Service Fund as a separate fund pledged to the payment of debt service on the Series 2010C Bonds. The Series 2010C Indenture also establishes four separate accounts in the Debt Service Fund:

- (i) Pledged State Aid Revenues Account, consisting of (1) the Interest Deposit Sub-Account and (2) the Pledged State Aid Revenues Sub-Account;
- (ii) Pledged Taxes Account;
- (iii) Bond Payment Account, consisting of (1) the Interest Sub-Account and (2) the Principal Sub-Account; and
- (iv) Swap Payment Account.

All Accounts and Sub-Accounts described under this caption “**Debt Service Fund and Accounts – Series 2010C Indenture**” shall refer to those Accounts and Sub-Accounts established under the Series 2010C Indenture for the benefit of the Series 2010C Bonds.

The Series 2010C Trustee shall deposit to the credit of the Interest Deposit Sub-Account established under the Series 2010C Indenture (i) any amounts paid by the Board to the Series 2010C 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 Series 2010C Trustee. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Series 2010C Bonds. All or a portion of such amounts so deposited to the credit of such Interest Deposit Sub-Account shall be transferred no later than the next succeeding date upon which interest on the Series 2010C 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 Series 2010C Bonds on such Interest Payment Date. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

The Board has provided in the Series 2010C Indenture for Series 2010C Annual Sinking Fund Payments to be deposited into the Principal Sub-Account to provide for the payment of the Series 2010C Bonds. 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 Series 2010C Bonds at maturity. The Series 2010C Indenture provides for the following amounts to be deposited by November 1 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**”):

Year	Series 2010C Annual Sinking Fund Payment
2021	\$25,766,086
2022	25,766,086
2023	25,766,086
2024	25,766,086
2025	25,766,086
2026	25,766,086
2027	30,376,161
2028	34,876,161
2029	37,276,162

If Series 2010C Bonds are redeemed prior to maturity by extraordinary mandatory redemption as described under “**THE BONDS – Redemption of the Series 2010C Bonds**,” as a result of the failure by the Board to spend sale proceeds of the Series 2010C Bonds in a timely manner, then the Series 2010C Annual Sinking Fund Payment due on each November 1 after the redemption date shall be reduced as directed by the Board in accordance with Section 54(d)(4)(C) of the Code or in the absence of such direction by the amount obtained by multiplying the Series 2010C Annual Sinking Fund Payment set forth for such year in the preceding table by a fraction the numerator of which is the principal amount of Series 2010C Bonds redeemed pursuant to such extraordinary mandatory redemption and the denominator of which is the principal amount of Series 2010C 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 Series 2010C Bonds as described below (each such date being referred to as a “**Series 2010C 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 Series 2010C Bonds that will become due and payable during the then-current annual period beginning on November 2 of the prior year to and including November 1 of the current year (each a “**Series 2010C Bond Year**”) and (ii) the Series 2010C Annual Sinking Fund Payment that will become due and payable during the then-current Series 2010C 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 Series 2010C Bonds during the then-current Series 2010C Bond Year. 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 Series 2010C Bonds due during the current Series 2010C Bond Year, the Trustee shall deliver to the Board a notice evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes with respect to the Series 2010C Bonds.

In the event that on any Series 2010C 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 Series 2010C 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 shall 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 Series 2010C Annual Sinking Fund Payments whenever the sum of the Investment Securities (as defined in the Series 2010C 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 Series 2010C Bonds at maturity.

The amount of moneys required to be deposited into the Principal Sub-Account for the Series 2010C Bonds in a particular year pursuant to the Series 2010C Indenture as adjusted pursuant to the Series 2010C Indenture and described above, shall be reduced by any Annual Sinking Fund Credit for that year.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on December 2 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Series 2010C Indenture and the Series 2010C Trustee will provide notice to the Board that such amounts constitute State Aid Revenues. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

Series 2010D Indenture

The Series 2010D Indenture 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:

- (i) Pledged State Aid Revenues Account, consisting of (1) the Interest Deposit Sub-Account; and (2) the Pledged State Aid Revenues Sub-Account;
- (ii) Pledged Taxes Account;
- (iii) Bond Payment Account, consisting of (1) the Interest Sub-Account and (2) the Principal Sub-Account; and
- (iv) Swap Payment Account.

All Accounts and Sub-Accounts described under this caption “**Debt Service Fund and Accounts – Series 2010D Indenture**” shall refer to those Accounts and Sub-Accounts established under the Series 2010D Indenture for the benefit of the Series 2010D Bonds.

The Series 2010D Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Series 2010D 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 Series 2010D Trustee. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Series 2010D Bonds. All or a portion of such amounts so deposited to the credit of such Interest Deposit Sub-Account shall be transferred no later than the next succeeding 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

Series 2010D Bonds on such Interest Payment Date. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

There shall be transferred *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Interest Deposit Sub-Accounts, subject to the requirements of the following paragraph, and *third* from moneys on deposit in the Pledged State Aid Revenues Sub-Account: (i) first, to the Interest Sub-Account on or before each Interest Payment Date for any of the Outstanding Series 2010D Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) second, to the Principal Sub-Account on or before each December 1 an amount equal to the principal amount of the Outstanding Series 2010D Bonds, if any, which mature on the December 1 of the year in which such deposit is made, less the amount then on deposit in the Principal Sub-Account and available for such payment; and (iii) third, to the Principal Sub-Account on or prior to December 1, on which Series 2010D Bonds are subject to mandatory sinking fund redemption, the amount required for the payment of the principal amount of such Series 2010D Bonds then to be redeemed.

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 Series 2010D Bonds as described below (each such date being referred to as a “**Series 2010D 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 interest on and principal of the Series 2010D 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 “**Series 2010D 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 Series 2010D Bonds during the then-current Series 2010D Bond Year. 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 Series 2010D Bonds due during the then-current Series 2010D Bond Year, the Trustee shall deliver to the Board a notice evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes with respect to the Series 2010D Bonds.

In the event that on any Series 2010D 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 Series 2010D 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.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on December 2 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Series 2010D 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 each Indenture are pledged to the payment of the Series of Bonds issued pursuant to such Indenture. The Series 2010C Annual Sinking Fund Payments, when deposited in accordance with the Series 2010C Indenture, will be funds pledged to the payment of the Series 2010C Bonds. See **APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”**

2009 Authorization Bonds

The Series 2010AB Bonds constitute the only Alternate Bonds issued under the 2009 Authorization. After issuance of the Bonds and the Series 2010FG Bonds, \$1,455,245,000 aggregate principal amount of Alternate Bonds will remain authorized and unissued under the 2009 Authorization. All of the 2009 Authorization Bonds are Alternate Bonds payable from the State Aid Revenues available under the 2009 Authorization. For additional information, see **“BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.”**

Additional Bonds Payable From Pledged State Aid Revenues

On or about the date of issuance of the Bonds, the Board expects to issue the Series 2010F Bonds and the Series 2010G Bonds to (i) pay the costs of the refunding and redemption of certain outstanding bonds of the Board and (ii) pay costs of issuance of the respective Series of such Bonds. The Series 2010FG Bonds will be issued pursuant to the Resolutions as Alternate Bonds payable from the Pledged State Aid Revenues and Pledged Taxes.

Pursuant to the Indentures, 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, the Series 2010FG Bonds expected to be issued by the Board and the Series 2010AB 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 of each Series 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. 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 were 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.

Since the establishment of the Board on July 1, 1999, Richard M. Daley has served as Mayor and has made all appointments to the Board. Mayor Daley announced recently that he will not seek re-election to the office in 2011 and his term as Mayor will end in May, 2011.

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 current members of the Board are as follows:

Mary B. Richardson-Lowry is President of the Board and was appointed to the Chicago Board of Education as a Member in January of 2010. The Board members elected her President of the Chicago Board of Education in February of 2010. She is a partner at Mayer Brown focusing primarily on public law. In her practice, she provides specific representation on the following areas of law: Utilities, Transportation, Commercial Transactions, Finance and Bonds. Ms. Richardson-Lowry joined Mayer Brown in 2002 and is currently a member of the firm’s Lateral Hiring Committee as well as its Diversity and Inclusion Committee. Previously, she served as Commissioner for the City of Chicago’s Department of Buildings (1998-2002) and in the Law Department of the City of Chicago as a contracts negotiator. Ms. Richardson-Lowry has been the recipient of numerous awards and honors and is active in several civic organizations. Ms. Richardson-Lowry received a bachelor’s degree from San Francisco State University and a Juris Doctor degree from Texas Southern University School of Law.

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 Community Trust 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 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 most recently 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 Arne Duncan at Chicago Public Schools. 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 Madison.

Roxanne M. Ward is the former Vice President and Corporate Liaison of Ariel Investments, LLC (“**Ariel**”). Ms. Ward also developed and served as 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 boards of 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, Congo Square Theater Company and WTTW. 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>
Mary B. Richardson-Lowry, President	June 30, 2011
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

[†] Pursuant to Section 34-3(b) of the School Code, 105 ILCS 5/1 *et seq.*, members continue to hold office until a successor is appointed.

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 Administrative Officer	Robert Runcie
Chief Operating Officer	Patricia L. Taylor
Chief Financial Officer	Diana S. Ferguson
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 (the “**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.

Robert Runcie is the Chief Administrative 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.

Patricia L. Taylor is the Chief Operating Officer of the Board. Ms. Taylor has more than 20 years of experience in city government. Prior to joining the Board, Ms. Taylor was the Vice President of Facility Maintenance, Construction and Engineering for the Chicago Transit Authority. In this role, she oversaw maintenance of more than 150 facilities and numerous capital improvement projects including the renovation of the Brown Line elevated train system. Prior to that, Pat Taylor served in government in an executive management capacity for the City of Chicago. Her positions included serving as the Director of Administration (Law Department), Director of Operations (Law-Investigations), and Assistant Budget Director (Office of Budget and Management). Prior to that she was an executive in the private sector for a large manufacturing corporation. Ms. Taylor holds an Associate's degree in Liberal Arts and attended Northeastern University majoring in Elementary Education and Business Administration.

Diana S. Ferguson is the Chief Financial Officer for the Board. Before joining the Board, Ms. Ferguson served as Senior Vice President and Chief Financial Officer of The Folgers Coffee Company. Earlier, she held financial management roles at Merisant Worldwide, Sara Lee Corporation and Fort James Corporation. Ms. Ferguson holds a B.A. from Yale University and a Masters degree from Northwestern University's Kellogg School of Management.

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 675 attendance centers consisting of 482 elementary schools, 122 high schools and 71 charter schools serving 409,279 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
2009/2010	293,509	115,770	409,279
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

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, 16 replacement schools, 57 additions and annexes. Additionally, 2,897 renovations and educational enhancements have been completed to date, including new roofs at 466 schools, new windows for 459 schools, and masonry work for 457 schools. Over 897 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 360 play lots and 38 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 August 31, 2010, 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. 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.

As described under the captions “**INTRODUCTION–Security for the Bonds**” and “**SECURITY FOR THE BONDS–Additional Bonds Payable From Pledged State Aid Revenues**”, on or about the date of issuance of the Bonds, the Board expects to issue the Series 2010FG Bonds for the purpose of refunding and redeeming certain outstanding bonds of the Board.

The Board anticipates that, subject to market conditions and other factors, it will issue one or more series of Alternate Bonds over the course of the next few years for the continued implementation of the Capital Improvement Program or to refund, at or prior to maturity, a portion of the remaining 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, turn to Chicago for lessons in making public education effective. In July 2001, Mayor Daley appointed a new management team consisting of experienced managers drawn from the corporate, university and nonprofit sectors who guided CPS over the past several years. In January 2009, the then Chief Executive Officer of CPS left CPS to become the United States Secretary of Education. The Mayor appointed Ron Huberman as Chief Executive Officer of CPS in January 2009. Mr. Huberman and his team remain 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 2010 results from the Illinois Standards Achievement Test show that 68.3% of students are meeting or exceeding state standards in reading, while 76.4% are meeting or exceeding state standards in math. Overall, the composite scores rose from 41.1% to 71.7% since 2002. 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, new schools are created which consist of a combination of performance, contract, and charter schools. These new schools help address the under-utilization of CPS buildings, lack of high school options, over-crowding and low performance. Renaissance 2010 is a multi-tiered overarching program. The program strategically focuses on geographic areas with the highest need for quality school options. The new school selection process is informed by the community's participation and insight. Schools are accountable to the Board via Performance or Charter 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 of Chicago. The \$1.2 billion plan will be funded primarily through city tax increment financing dollars and CPS bonds issued between 2007 and 2010. 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. Two

new high schools, two high school renovations, one new middle school, and nine new elementary schools have opened to date. In 2011, two new high schools, two new elementary schools will open and one high school renovation will be completed. The remainder of the schools will be constructed over the next several years.

Chicago Teachers' Union and Other Employee Groups

For its 2010 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, 2010 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 2011 Budget and Recent Financial Information Concerning the Board

For fiscal years 1996 through 2010, the Board adopted and achieved a balanced budget. The Board also adopted a balanced budget for fiscal year 2011 that reflected general and special revenue funds' operating appropriations of \$5.282 billion, of which \$3.586 billion represented the General Fund. The most recent audited financial statements are for the fiscal year ended June 30, 2009, and are included as APPENDIX A.

On August 25, 2010, the Board adopted its fiscal year 2011 budget which can be found on the Board's website: http://www.cps.edu/About_CPS/Financial_information. The appropriation for the fiscal year 2011 operating budget totals \$5.282 billion; the debt service budget totals \$477.4 million, and the Capital Projects budget totals \$806.7 million. The estimated balance of the Budget Stabilization Fund equaled \$190 million at the close of fiscal year 2010 or 3.4% of the fiscal year 2011 appropriations base. The Budget Stabilization Fund at the end of fiscal year 2010 reflects the impact of a delay in receipt of payments due from the State. The Board recognizes revenue up to 30 days after the close of the fiscal year, and as of July 30, 2010, the State had not paid \$236.2 million of fiscal year 2010 obligations to the Board. Had the Board received these payments, the Budget Stabilization Fund balance would have been equal to 7.5% of the appropriation base.

The Board receives several different types of revenue from the State. General State Aid, representing approximately 18% of total operating resources, continues to be received on time and has never been late. Categorical aids, including funds for bilingual and special education, account for 12% of total Board revenues and are 5 months behind schedule as of June 30, 2010. The fiscal year 2011 budget

assumes the State continues a 5 month payment delay for categorical aids, and additionally includes a \$10 million decline in General State Aid based on student enrollment. The fiscal year 2011 budget reflects the use of the \$190 million Budget Stabilization Fund to supplement resources necessary to continue programs and balance the budget.

The Board's fiscal year 2011 budget reflects significant budget cuts, including programmatic reductions, delayed debt issuance, administrative furlough days, and cuts to staff. The Board anticipates reducing expenditures further to minimize the use of the Budget Stabilization Fund balance and will use any one-time revenues to restore the balance. One-time revenues include any surplus funds received from tax increment financing districts in the City and revenues due from the State. Because the budget does not include any fiscal year 2010 late State obligation payments as revenues, any prior year revenues received can be directly applied to the fund balance. Finally, the Board will restructure a portion of its fiscal year 2011 debt service payments with proceeds of the Series 2010FG Bonds and other measures outlined in the fiscal year 2011 budget as a tool in the overall plan to minimize the use of the Budget Stabilization Fund and provide operating relief.

The Board has entered into a line of credit for up to \$500 million to provide for liquidity due to the expected delay in the receipt of the second half property tax installment for tax levy year 2009 (see "THE REAL PROPERTY TAX SYSTEM – Real Property, Assessment, Tax Levy and Collection Procedures – Collection") as well as the delay in receipt of certain State payments (SEE "SECURITY FOR THE BONDS – General State Aid"). The line of credit does not constitute general obligation debt of the Board and will be repaid by no later than March 1, 2011, solely from collections of the second half property tax installment for tax levy year 2009.

General Operating Fund Balances

As of June 30, 2010, the Board had an estimated fund balance of \$409 million, of which \$219 million is expected to be reserved for encumbrances and other specific purposes. The remaining unreserved balance is expected to be \$190 million, all of which is expected to be designated to provide operating capital for future years. The fiscal year 2011 budget re-appropriates the \$190 million of estimated unreserved fund balance to balance the General Fund. In addition, \$54.6 million out of \$105 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

(Dollars in thousands)

	<u>Actual (as of June 30)</u>				2010	2011
	2006	2007	2008	2009	Year End Estimate	Budget
Revenues:						
Property Taxes	\$ 1,666,118	\$ 1,716,516	\$ 1,763,282	\$ 1,867,350	\$ 2,015,400	\$ 1,920,100
Replacement Taxes	131,639	147,403	159,805	132,819	97,300	98,700
State Aid.....	1,492,361	1,549,493	1,692,351	1,333,182	1,366,400	1,628,500
Federal Aid.....	757,731	711,963	832,526	1,122,805	1,229,200	1,289,000
Investment Income	36,874	61,595	40,905	21,405	4,000	2,600
Other	101,129	95,534	96,816	102,107	101,300	99,200
Total Revenues.....	<u>\$ 4,185,852</u>	<u>\$ 4,282,504</u>	<u>\$ 4,585,685</u>	<u>\$ 4,579,668</u>	<u>\$ 4,813,600</u>	<u>\$ 5,038,100</u>
Expenditures						
Instruction.....	\$ 2,538,909	\$ 2,491,653	\$ 2,575,124	\$ 2,773,440	\$ 2,910,000	2,954,983
Pupil Services.....	333,968	349,324	362,325	390,399	415,000	457,382
Support Services.....	893,041	916,334	986,905	1,057,672	1,039,000	1,384,031
Food Services	172,774	179,902	181,778	194,603	196,000	231,364
Community Services	46,179	45,467	45,708	56,003	55,500	53,545
Teachers' Pension	75,398	155,563	206,651	237,011	294,000	182,307
Other.....	24,824	8,126	36,194	33,651	39,000	19,088
Total Expenditures	<u>\$ 4,085,093</u>	<u>\$ 4,146,369</u>	<u>\$ 4,394,685</u>	<u>\$ 4,742,779</u>	<u>\$ 4,948,500</u>	<u>\$ 5,282,700</u>
Revenues in Excess of (less than) Expenditures	\$ 100,759	\$ 136,135	\$ 191,000	\$ (163,111)	(134,900)	(244,600)
Other Financing Sources.....	4,145	1,904	3,813	20,389	17,400	0
Change in Fund Balance						
Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	\$ 104,904	\$ 138,039	\$ 194,813	\$ (142,722)	\$ (117,500)	\$ (244,600)
Fund Balance, Beginning of Period as restated ⁽¹⁾	390,993	495,897	474,783	669,596	526,874	409,374
Fund Balance, End of Period ⁽²⁾	<u>\$ 495,897</u>	<u>\$ 633,936</u>	<u>\$ 669,596</u>	<u>\$ 526,874</u>	<u>\$ 409,374</u>	<u>\$ 164,774</u>
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	\$ 102,286	\$ 97,731	\$ 132,684	\$ 110,685	\$ 114,374	\$ 114,374
Specific Purposes	85,891	131,362	104,521	104,767	105,000	50,400
Total Reserved Fund Balance	<u>\$ 188,177</u>	<u>\$ 229,093</u>	<u>\$ 237,205</u>	<u>\$ 215,452</u>	<u>\$ 219,374</u>	<u>\$ 164,774</u>
Unreserved:						
Designated to Provide						
Operating Capital	\$ 218,400	\$ 233,200	\$ 258,000	\$ 181,200	\$ 190,000	\$ 0
Undesignated.....	89,320	171,643	174,391	130,222	-	0
Total Unreserved.....	<u>\$ 307,720</u>	<u>\$ 404,843</u>	<u>\$ 432,391</u>	<u>\$ 311,422</u>	<u>\$ 190,000</u>	<u>\$ 0</u>
Total Fund Balance.....	\$ 495,897	\$ 633,936	\$ 669,596	\$ 526,874	\$ 409,374	\$ 164,774

⁽¹⁾ The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See APPENDIX A – “Audited Financial Statements for Fiscal Year 2009.”

⁽²⁾ 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.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately \$4.9 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also includes approximately \$359 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 October 21, 2010
(Dollars in Thousands)**

	Amount
Direct Debt	
Series 2010C	\$ 257,125
Series 2010D	125,000
Series 2010F	183,750
Series 2010G	72,915
Total Prior Bonds ⁽¹⁾	4,652,364
Leases Securing PBC Bonds (principal component)	<u>358,800</u>
Total Direct Debt	<u>\$5,649,954</u>

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt ⁽²⁾			
City	\$6,952,388	100%	\$ 6,952,388
Chicago Park District ⁽³⁾	813,060	100%	813,060
Water Reclamation District	1,945,430	47.61%	926,219
Cook County	3,573,275	46.63%	1,666,218
Forest Preserve District	108,665	46.63%	<u>50,670</u>
Total Overlapping Debt			<u>\$10,408,555</u>
Total Direct and Overlapping Debt			<u>\$16,058,509</u>

Selected Debt Statistics

Population (2009)	2,896,016 ⁽⁵⁾
Equalized Assessed Valuation (2008) ⁽⁴⁾	80,983,836 ⁽⁶⁾
Estimated Fair Market Value (2008)	310,888,609 ⁽⁷⁾

	<u>Per Capita</u> ⁽⁸⁾	<u>% EAV</u>	<u>% FMV</u>
Direct Debt	\$1,951	6.98%	1.817%
Total Direct and Overlapping Debt	\$5,545	19.83%	5.165%

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- (1) Giving effect to the refunding of certain bonds of the Board with proceeds of the 2010FG Bonds.
- (2) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the following units of government: Chicago Park District \$19,205,000.
- (3) 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 parking revenues.
- (4) Real property located in Cook County only.
- (5) Source: United States Census Bureau.
- (6) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
- (7) Source: The Civic Federation. Information for 2009 is not available.
- (8) Per Capita amounts are not expressed as dollars in thousands.

Board's Debt Service Schedule

As of October 21, 2010⁽¹⁾⁽⁴⁾

(giving effect to the issuance of the Bonds and the Series 2010FG Bonds and the refunding of certain outstanding bonds of the Board with proceeds of the Series 2010FG Bonds)

<u>Calendar Year</u>	<u>Prior Bonds⁽²⁾</u>	<u>PBC Leases</u>	<u>Series 2010C Bonds⁽³⁾</u>	<u>Series 2010D Bonds</u>	<u>Series 2010FG Bonds</u>	<u>Total Annual Debt Service</u>
2010	\$ 296,034,881	\$ 52,163,338	\$ 0	\$ 0	\$ 0	\$ 348,198,219
2011	293,304,953	52,232,025	16,202,596	8,805,177	12,600,636	383,145,387
2012	275,324,822	52,318,625	16,247,729	8,148,750	11,661,257	363,701,183
2013	374,270,164	52,359,513	16,247,729	8,148,750	20,001,257	471,027,413
2014	367,508,923	52,430,550	16,247,729	8,148,750	44,535,155	488,871,107
2015	378,314,648	52,467,613	16,247,729	8,148,750	33,598,620	488,777,360
2016	369,506,928	52,519,550	16,247,729	8,148,750	34,710,800	481,133,757
2017	382,265,163	52,600,125	16,247,729	8,148,750	23,288,875	482,550,642
2018	378,118,678	52,664,600	16,247,729	8,148,750	24,506,500	479,686,257
2019	402,156,687	30,635,500	16,247,729	8,148,750	21,835,000	479,023,666
2020	427,119,856		16,247,729	8,148,750	24,154,750	475,671,085
2021	434,522,255		42,013,815	8,148,750	9,570,750	494,255,570
2022	433,945,443		42,013,815	8,148,750	4,840,500	488,948,508
2023	419,065,148		42,013,815	8,148,750	4,840,500	474,068,213
2024	426,675,734		42,013,815	8,148,750	4,840,500	481,678,799
2025	482,154,633		42,013,815	8,148,750	4,840,500	537,157,698
2026	421,279,335		42,013,815	8,148,750	4,840,500	476,282,400
2027	416,529,440		46,623,890	8,148,750	7,145,500	478,447,580
2028	418,785,752		51,123,890	8,148,750	4,725,250	482,783,642
2029	413,839,901		53,523,891	8,148,750	7,325,250	482,837,792
2030	398,687,001			8,148,750	49,180,250	456,016,001
2031	397,668,022			8,148,750	49,686,000	455,502,772
2032	157,468,977			8,148,750		165,617,727
2033	116,283,660			8,148,750		124,432,410
2034	115,512,516			8,148,750		123,661,266
2035	99,647,600			8,148,750		107,796,350
2036	85,707,971			8,148,750		93,856,721
2037	43,779,276			26,638,750		70,418,026
2038	43,024,481			26,968,387		69,992,868
2039	42,237,617			27,302,957		69,540,574
2040				69,045,616		69,045,616
	<u>\$9,310,740,465</u>	<u>\$502,391,439</u>	<u>\$565,786,718</u>	<u>\$362,479,637</u>	<u>\$402,728,350</u>	<u>\$11,144,126,607</u>

- (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) Includes the Series 2010C Annual Sinking Fund Payments required by the Series 2010C Indenture. See “**SECURITY FOR THE BONDS – Debt Service Fund and Accounts – Series 2010C Indenture**”.
- (4) Columns may not total due to rounding.

Legal Debt Margin Information of the Board

Last Five Available Fiscal Years

(Dollars in Thousands)

As of June 30

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Assessed Value	\$55,283,639	\$59,310,826	\$69,517,264	\$73,651,158	\$80,983,239
Debt Limit	7,629,142	8,184,894	9,593,382	10,163,860	11,175,687
General Obligation Debt	764,761	711,982	658,947	606,009	553,134
Less: Amount set aside for repayment of bonds	(38,913)	(39,984)	(37,322)	(36,238)	(34,719)
Total Net Debt applicable to Debt Limit ⁽¹⁾	<u>725,848</u>	<u>671,998</u>	<u>621,625</u>	<u>569,771</u>	<u>518,415</u>
Legal debt margin	<u>\$6,903,294</u>	<u>\$7,512,896</u>	<u>\$8,971,758</u>	<u>\$9,594,089</u>	<u>\$10,657,272</u>
Total net debt applicable to the limit as a percentage of Debt Limit	9.51%	8.21%	6.48%	5.61%	4.64%

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

Board's Interest Rate Swap Agreements

The Indentures permit 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 or the Series 2010FG 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-	3/01/2007	\$61,100,000	3/01/2032	3.823%	70% of LIBOR
2010A	Royal Bank of Canada	Aaa/AA-	3/01/2007	\$48,910,000	3/01/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC ⁽²⁾	Aa3/A+	11/01/2005	\$116,151,000	12/01/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch Capital Services, Inc	A2/A	11/01/2005	\$77,434,000	12/01/2031	BMA Index	80.76% of LIBOR
2010B	Loop Financial Products I LLC ⁽²⁾	Aa3/A+	12/08/2005	\$157,055,000	3/01/2036	3.6617%	70% of LIBOR
2008A	Royal Bank of Canada	Aaa/AA-	5/13/2008	\$162,785,000	12/01/2028	5.25%	70% of LIBOR + 28bp
	Bank of America NA	Aa3/A+	5/13/2008	\$100,000,000	12/02/2030	5.25%	70% of LIBOR + 28bp
2008B	Goldman Sachs Bank USA ⁽³⁾	Aa3/NR	1/27/2010	\$95,350,000	3/01/2034	3.771%	70% of LIBOR
	Goldman Sachs Bank USA	Aa3/NR	5/13/2008	\$90,000,000	3/01/2034	3.771%	70% of LIBOR
2009A	Loop Financial Products I LLC ⁽²⁾	Aa3/A+	3/10/2009	\$130,000,000	3/01/2026	3.6617%	70% of LIBOR
2009B	Royal Bank of Canada	Aaa/AA-	6/25/2009	\$75,410,000	3/01/2035	3.825%	70% of LIBOR

⁽¹⁾ As of October 6, 2010.

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

⁽³⁾ On January 27, 2010, the Swap Agreement was novated to Goldman Sachs Bank USA from Lehman Brothers Special Financing Inc.

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 an Existing 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 2009" — 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. In 2010, Public Act 96-0889 became law, extending this deadline to fiscal year 2059. In addition, Public Act 96-0889 created a second, reduced tier of benefits for CPS employees hired on or after January 1, 2011, extended the retirement age for full pension benefits and capped the maximum salary for pension purposes. As of June 30, 2009, 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 73.6%.

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. The Board contributed \$317 million to the Pension Fund in fiscal year 2010. In addition to the reforms mentioned above, Public Act 96-0889 also includes three years of short-term pension funding relief for CPS, reducing required contributions to \$187 million, \$192 million and \$196 million in fiscal years 2011, 2012 and 2013, respectively. For further information see "**BOARD OF EDUCATION OF THE CITY OF CHICAGO -Overview of Board's Fiscal Year 2011 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, 2009 has been estimated to be \$2,407,122,000 and \$171,880,000 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 seven 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 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. Currently, a member of the Board is one of these members. The presiding officers of the Park District and the Water Reclamation District each appoint five members 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 16-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 (“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 receives revenue from the operation of its facilities and from the imposition of sales and other consumption-related taxes. In May 2010, the Illinois legislature enacted legislation designed to reform labor rules, establish exhibitor rights and realign the operations of McCormick Place with its major competitors in the convention and trade show industry. Among other things, the law provides for the appointment of a trustee to oversee operations during an 18-month transition period and to select a private manager for McCormick Place. In order to allow the MPEA to further lower costs to customers and to put MPEA on sound financial footing, the law also allows for the restructuring of outstanding MPEA capital debt. Finally, the law increased funding benefiting MPEA by doubling the airport tax that all private ground transportation companies which provide transportation services from O’Hare Airport or Midway Airport are required to pay when picking up passengers.

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

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**”). 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 were to become inoperable if the Authority ceases to exist prior to that date. In accordance with law, Authority ceased to exist in June 2010, one year after all bonds and notes issued by it were discharged.

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 facilities 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

2009 and will be reassessed in 2012. The suburbs in the northern and northwestern portions of the County will be reassessed in tax year 2010. The suburbs in the western and southern portions of the County will be reassessed in tax year 2011.

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 market 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 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 proposed Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by appealing to 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 the County. The Board of Review is empowered to review and adjust Assessed Valuations set by the Assessor.

Owners of both residential property having six or fewer units and owners of real estate other than residential property with six or fewer units are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the “**PTAB**”), a statewide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Taxpayers may appeal the decision of PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

As an alternative to seeking review of Assessed Valuations by PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County similar to the previously described judicial review procedure but with a different standard of proof than previously required. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct any factual error, and thus reduce the amount of taxes due, by issuing a Certificate of Error. Certificates of Error are not issued in cases where the only issue is the opinion of the valuation of the property.

In a series of 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.

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**” or “**EAV**”).

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, 2009, see “— **Property Tax Information — Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2000 2009.**”

Exemptions. The Illinois Property Tax Code currently provides for a number of different homestead exemptions. These exemptions are discussed below.

An annual General Homestead Exemption provides that the EAV of certain property owned and used for residential purposes (“**Residential Property**”) may be reduced by \$5,500 for assessment year 2008, and \$6,000 for assessment years 2009 and forward (the “**General Homestead Exemption**”).

The Alternative General Homestead Exemption (the “**Alternative General Homestead Exemption**”) caps EAV increases for homeowners (who also reside on the property as their principal place of residence) at 7% a year, up to a certain maximum each year as defined by the statute. Any amount of increase that exceeds the maximum exemption as defined is added to the 7% increase and is part of that property’s taxable EAV. Homes that do not increase by at least 7% a year are entitled, in the alternative, to the General Homestead Exemption as discussed above.

The Base Year for purposes of calculation of the Alternative General Homestead Exemption is 2002 for properties located in the City, 2003 for properties located in the northern and northwestern portions of the County and 2004 for properties located in the western and southern portions of the County. The Base Homestead Value is the EAV of the homestead property minus the General Homestead Exemption for that year: \$5,500 for 2008 and \$6,000 for the year 2009 and thereafter.

For properties in the City, the Alternative General Homestead Exemption cannot exceed \$20,000 for assessment year 2008 and \$6,000 thereafter. For properties in the northern and northwestern portions of the County, the Alternative General Homestead Exemption cannot exceed \$26,000 for assessment year 2008, \$20,000 for assessment year 2009 and \$6,000 thereafter. For properties in the western and southern portions of the County, the Alternative General Homestead Exemption cannot exceed \$33,000 for assessment year 2008, \$26,000 for assessment year 2009, \$20,000 for assessment year 2010 and \$6,000 thereafter.

Finally, the Long-Time Occupant Homestead Exemption applies to those counties subject to the Alternative General Homestead Exemption, including the County. Beginning with assessment year 2007 and thereafter, the EAV of homestead property of a taxpayer who has owned the property for at least 10 years (or five years if purchased with certain government assistance) and who has a household income of \$100,000 or less (“**Qualified Homestead Property**”) may increase by no more than 10% per year. If the taxpayer’s annual income is \$75,000 or less, the EAV of the Qualified Homestead Property may increase by no more than 7% per year. There is no exemption limit for Qualified Homestead Properties. Individuals applying for this exemption must comply with the following guidelines: (i) continuously occupy their property for 10 years, as of January 1st of the assessment year, and occupy such property as their principal residence or, (ii) continuously occupy their property as their principal place of residence for five years, as of January 1st of the assessment year, provided that the property was purchased with certain government assistance.

In addition, the Homestead Improvement Exemption (“**Homestead Improvement Exemption**”) applies to residential properties that have been improved and to properties that have been rebuilt in the two years following a catastrophic event. The exemption is limited to \$75,000 per year to the extent the assessed value is attributable solely to such improvements or rebuilding.

Additional exemptions exist for senior citizens. The Senior Citizens Homestead Exemption (“**Senior Citizens Homestead Exemption**”) operates annually to reduce the EAV on a senior citizen’s home by \$4,000 in all counties. Furthermore, property that is first occupied as a residence after January 1 of any assessment year by a person who is eligible for the Senior Citizens Homestead Exemption must be granted a prorata exemption for the assessment year based on the number of days during the assessment year that the property is occupied as a residence by a person eligible for the exemption.

A Senior Citizens Assessment Freeze Homestead Exemption (“**Senior Citizens Assessment Freeze Homestead Exemption**”) freezes property tax assessments for homeowners who are 65 and older, reside in their property as their principal place of residence and receive a household income not in excess of the maximum income limitation. The maximum income limitation is \$55,000 for assessment years 2008 and thereafter. In general, the exemption grants qualifying senior citizens an exemption based upon a “freeze” of their home’s Assessed Valuation.

Another exemption, available to disabled veterans, may be applied annually to exempt up to \$70,000 of the Assessed Valuation of property owned and used exclusively by such veterans or their spouses for residential purposes. However, individuals claiming exemption under the Disabled Persons’ Homestead Exemption (“**Disabled Persons’ Homestead Exemption**”) or the hereinafter defined Disabled Veterans Standard Homestead Exemption cannot claim the aforementioned exemption.

Also, certain property is exempt from taxation on the basis of ownership and/or use, such as public parks, not for profit schools and public schools, churches, and not for profit hospitals and public hospitals.

Furthermore, beginning with assessment year 2007, the Disabled Persons’ Homestead Exemption provides an annual homestead exemption in the amount of \$2,000 for property that is owned and occupied by certain persons with a disability. However, individuals claiming exemption as a disabled veteran or claiming exemption under the Disabled Veterans Standard Homestead Exemption cannot claim the Disabled Persons’ Homestead Exemption.

In addition, the Disabled Veterans Standard Homestead Exemption (“**Disabled Veterans Standard Homestead Exemption**”) provides disabled veterans an annual homestead exemption starting with assessment year 2007 and thereafter. Specifically, (i) those veterans with a service-connected

disability of 75% are granted an exemption of \$5,000 and (ii) those veterans with a service-connected disability of less than 75%, but at least 50%, are granted an exemption of \$2,500. Furthermore, the veteran's surviving spouse is entitled to the benefit of the exemption, provided that the spouse has legal or beneficial title of the homestead, resides permanently on the homestead and does not remarry. Moreover, if the property is sold by the surviving spouse, then an exemption amount not to exceed the amount specified by the current property tax roll may be transferred to the spouse's new residence, provided that it is the spouse's primary residence and the spouse does not remarry. However, individuals claiming exemption as a disabled veteran or claiming an exemption under the Disabled Persons' Homestead Exemption cannot claim the aforementioned exemption.

Also, beginning with assessment year 2007, the Returning Veterans' Homestead Exemption ("**Returning Veterans' Homestead Exemption**") is available for property owned and occupied as the principal residence of a veteran in the assessment year the veteran returns from an armed conflict while on active duty in the United States armed forces. This provision grants a homestead exemption of \$5,000, which is applicable in all counties. In order to apply for this exemption, the individual must pay real estate taxes on the property, own the property or have either a legal or an equitable interest in the property, subject to some limitations. Those individuals eligible for this exemption may claim the exemption in addition to other homestead exemptions, unless otherwise noted.

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. The County Clerk computes the Unit's maximum allowable levy by multiplying the maximum tax rate for that Unit multiplied by the prior year's EAV for all property currently in the taxing district. The prior year's EAV includes the EAV of any new property, the current year value of any annexed property, and any recovered tax increment value, minus any disconnected property for the current year under the Property Tax Extension Limitation Law ("**Limitation Law**"). See "**Property Tax Extension Limitation Law; Issuance of Alternate Bonds**" below. The tax rate for a Unit is computed by dividing the lesser of the maximum allowable levy or the actual levy by the current year's EAV. 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.

Extensions. The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all of the Units having jurisdiction over the particular parcel. The County Clerk extends the tax by entering the tax (determined by multiplying the total tax rate by the EAV of that parcel for the current assessment year) in the books prepared for the County Collector (the "**Warrant Books**") along with the tax rates, the Assessed Valuation and the EAV. 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 calculated at 55% 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 then current tax year 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 December 1; and the date for tax year 2008 was December 1, 2009. 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 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 and the Series 2010FG 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 such 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. The Bond Issue Notification Act does not require a public hearing in connection with the issuance of refunding bonds, such as the Series 2010F Bonds and the Series 2010G Bonds.

Property Tax Information

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

Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2000-2008

(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	19,339,574	1,602,769	12,359,537	693,240	33,995,120	2.9786	80,977,543	310,888,609	26.05%
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	201,938,231	22.45
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	185,912,246	22.58
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	162,593,364	24.90
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	135,522,333	26.09

(1) Source: Cook County Assessor's Office. Information for 2009 is not available.

(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. Information for 2009 is not available.

(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 1997, 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
2009	\$2,183,443	\$1,037,744	47.5%	\$1,037,744	47.5%
2008	2,001,751	1,863,630	93.1	1,946,813	97.3
2007	1,901,887	1,809,396	95.1	1,873,341	98.5
2006	1,874,750	1,644,937	87.7	1,821,375	97.2
2005	1,794,063	1,728,522	96.3	1,745,903	97.4
2004	1,716,111	1,565,982	91.3	1,683,520	98.1
2003	1,670,337	1,500,238	89.8	1,623,710	97.2
2002	1,614,473	1,548,369	95.9	1,578,606	97.8
2001	1,571,962	1,519,630	96.7	1,547,795	98.5
2000	1,503,488	1,446,847	96.2	1,466,401	97.5

Source: Board of Education of the City of Chicago

(1) Tax receivables is net of Estimated Allowance for Uncollectible taxes (the "Allowance").

(2) The 2009 tax extension year reflects collections through September 15, 2010. The 2009 tax extension amount is subject to change.

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tax Rates by Board Fund:									
Educational	\$2.756	\$2.712	\$2.670	\$2.258	\$2.301	\$2.142	\$2.078	\$2.377	\$2.426
School District Medicare ⁽¹⁾	0.047	0.031	0.017	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.141	0.191	0.150	0.219	0.131	0.228	0.021	0.190	0.031
PBC Operation and Maintenance ⁽²⁾	0.640	0.685	0.609	0.565	0.576	0.565	0.521	0.000	0.000
PBC Lease Rentals	<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>\$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	\$1.660	\$1.637	\$1.591	\$1.380	\$1.302	\$1.243	\$1.062	\$1.044	\$1.147
Community College District	0.311	0.307	0.280	0.246	0.242	0.234	0.205	0.159	0.156
School Finance Authority	0.223	0.223	0.177	0.151	0.177	0.127	0.118	0.091	0.000
Chicago Park District	0.572	0.567	0.545	0.464	0.455	0.443	0.379	0.355	0.323
Water Reclamation District	0.415	0.401	0.371	0.361	0.347	0.315	0.284	0.263	0.252
Cook County	0.824	0.746	0.690	0.630	0.593	0.533	0.500	0.446	0.415
Cook County Forest Preserve	<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>\$4.074</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>\$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

General. Interest on the Series 2010C Bonds and Series 2010D Bonds (together, the “**Taxable Bonds**”) is not excludable from gross income of the owners thereof for federal income tax purposes. In addition, interest on the Taxable Bonds is not exempt from State of Illinois income taxes.

Certain United States Federal Income Tax Consequences. The following is a summary of the principal United States federal income tax consequences of ownership of the Taxable Bonds. It deals only with the Taxable Bonds held as capital assets by initial purchasers, and not with special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold the Taxable Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the US dollar. The summary is based on the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

The Code contains a number of provisions relating to the taxation of the Taxable Bonds (including but not limited to the treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the disposition thereof and withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Prospective purchasers of the Taxable Bonds should consult their own tax advisors concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Taxable Bonds.

Payments of Interest to United States Holders. Interest on the Taxable Bonds will be taxable to a United States Holder (as defined below) as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes in accordance with generally applicable principles.

You are a United States Holder for purposes of this discussion if you are a beneficial owner of a Taxable Bond for US federal income tax law purposes and you are:

a citizen or resident of the United States;

a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a US person.

The term “*Non-US Holder*” refers to any beneficial owner of a Taxable Bond who or which is not a United States Holder.

Original Issue Discount. In general, if the excess of a Taxable Bond’s stated redemption price at maturity over its issue price is less than one-quarter of one percent (0.25%) of the Taxable Bond’s stated

redemption price at maturity multiplied by the number of complete years to its maturity, then such excess, if any, constitutes *de minimis* original issue discount. In such case, the Taxable Bond is not considered to be a Taxable Bond issued with original issue discount that is required to be included in income calculated using a constant-yield method without regard to the receipt of cash attributable to such income. Such excess will be treated as gain recognized upon retirement of the Taxable Bond.

Sale and Retirement of the Taxable Bonds. United States Holders of the Taxable Bonds will recognize gain or loss on the sale, redemption, retirement or other disposition of such Taxable Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Taxable Bond and the United States Holder's adjusted tax basis in the Taxable Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Taxable Bond has been held for more than one year.

United States Federal Income Tax Considerations for Non-US Holders. Generally, payments of principal and interest on a Taxable Bond will not be subject to US federal withholding tax, provided that in the case of an interest payment:

you are not a bank to whom the Taxable Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and

either (A) the beneficial owner of the Taxable Bond certifies to the applicable payor or its agent, under penalties of perjury on an IRS Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "financial institution") and holds the Taxable Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, you generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a Taxable Bond if such interest and original issue discount is effectively connected with your conduct of a trade or business in the United States. Effectively connected interest and original issue discount received by a corporate Non-US Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the payor.

Gain on Disposition of the Taxable Bonds. You generally will not be subject to US federal income tax on gain realized on the sale, exchange or redemption of a Taxable Bond unless:

you are an individual present in the United States for 183 days or more in the year of such sale, exchange or redemption and either (A) you have a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to your office or other fixed place of business in the United States; or

the gain is effectively connected with your conduct of a trade or business in the United States.

US Federal Estate Tax. A Taxable Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for US federal estate tax purposes) will not be

subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax recently was repealed effective January 1, 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

Backup Withholding and Information Reporting

(a) *United States Holders.* Information reporting will apply to payments of interest made by the Board, or the proceeds of the sale or other disposition of the Taxable Bond with respect to certain non-corporate US holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's US federal income tax liability provided the required information is furnished to the IRS.

(b) *Non-US Holders.* Backup withholding and information reporting on Form 1099 will not apply to payments of principal and interest on the Taxable Bonds by the Board or the Trustee to a Non-US Holder provided the Non-US Holder provides the certification described above under "United States Federal Income Tax Considerations for Non-US Holders-Withholding Tax on Payments of Principal and Interest on the Taxable Bonds or otherwise establishes an exemption (provided that neither the Board nor the Trustee has actual knowledge that the holder is a United States person or that the conditions of any other exemptions are not in fact satisfied). Interest payments made to a Non-US Holder may, however, be reported to the IRS and to such Non-US Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of the Taxable Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Taxable Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a US trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-US holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Taxable Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's US federal income tax liability provided the required information is furnished to the IRS.

Circular 230 Disclaimer

The description of certain tax matters under the heading "**TAX MATTERS,**" above is not intended to be used, and cannot be used by any purchaser of the Series 2010C Bonds and Series 2010D Bonds for the purpose of avoiding penalties that may be imposed on such purchaser. This advice is written to support the promotion or marketing of the Series 2010C Bonds and Series 2010D Bonds.

Change of Law

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

RATINGS

The Bonds of each Series have been assigned the ratings of “Aa2” by Moody’s Investors Service, “AA-” by Standard & Poor’s, a Division of The McGraw Hill Companies, Inc. and “A+” by Fitch Ratings.

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, 2009, 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 ADVISORS

The Board has engaged A.C. Advisory, Inc. and Scott Balice Strategies LLC as Co-Financial Advisors (the “**Financial Advisors**”) in connection with the authorization, issuance and sale of the Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the Bonds and has reviewed certain legal documents, including this Official Statement, with respect to financial matters. Unless indicated to the contrary, the Financial Advisors have not independently verified the factual information contained in this Official Statement, but have relied on the information supplied by the Board and other sources.

UNDERWRITING

Series 2010C Bonds

Loop Capital Markets LLC (“**Loop**”), as representative and on behalf of itself and the other underwriters listed on the cover of this Official Statement (the “**Series 2010C Underwriters**”) have agreed to purchase the Series 2010C Bonds at an aggregate purchase price of \$255,791,594.19 (representing an aggregate principal amount of \$257,125,000.00 less \$1,333,405.81 of Underwriter’s discount). The Series 2010C Bonds will be offered to the public at the price as set forth on the inside cover of this Official Statement. The Series 2010C Underwriters will be obligated to purchase all of the Series 2010C Bonds if any are purchased. The Series 2010C Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2010C Bonds to the public.

Series 2010D Bonds

Siebert Brandford Shank & Co., L.L.C., as representative and on behalf of itself and the other underwriters listed on the cover of this Official Statement (the “**Series 2010D Underwriters**”), have agreed to purchase the Series 2010D Bonds at an aggregate purchase price of \$124,347,112.62 (representing an aggregate principal amount of \$125,000,000.00 less \$652,887.38 of Underwriter’s discount). The Series 2010D Bonds will be offered to the public at the price as set forth on the inside cover of this Official Statement. The Series 2010D Underwriters will be obligated to purchase all of the Series 2010D Bonds if any are purchased. The Series 2010D Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2010D Bonds to the public.

Loop has entered into an agreement (the “**Distribution Agreement**”) with UBS Financial Services Inc. (“**UBS**”) for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), Loop will share a portion of its underwriting compensation with respect to the Bonds with UBS.

As used on the cover page of this Official Statement, BMO Capital Markets is the trade name for BMO Capital Markets GKST Inc.

The obligation of the Underwriters to accept delivery of and pay for the respective Series of Bonds is subject to various conditions set forth in the respective Contract of Purchase for such 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 respective Series of Bonds is subject to the issuance of the approving legal opinions of Katten Muchin Rosenman LLP, Chicago, Illinois and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, as Co-Bond Counsel. The proposed forms of such opinions are included herein as **APPENDIX C**. Certain legal matters will be passed upon for the Board by Patrick J. Rocks, the Board’s General Counsel, and by its special counsel, Quarles & Brady LLP, Chicago, Illinois, and for the Underwriters by their co-counsel, Perkins Coie LLP and Burke Burns & Pinelli, Ltd., each of Chicago, Illinois.

LITIGATION

General

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

Upon delivery of the Bonds 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.

Chicago Teachers Union v. Board of Education etc. et al. (US Dist. Court, ND ILL.) Case No. 10-CV-4852; Chicago Teachers Union v. Chicago Board of Education (IELRB), Cases No. 2011-CA-0033-C; 2011-CA-0036-C. The CTU has recently withdrawn one Illinois Educational Labor Relations Board (“IELRB”) case and filed two new cases. The substantive claims remain the same. CTU challenges the economic layoffs that the Board implemented during the summer of 2010. In federal district court, CTU claims violations of federal due process and the contracts clause of the U.S. Constitution as well as state law violations. Before the IELRB, CTU claims that the Board failed to bargain in good faith over the layoff decision and its impact on the bargaining unit. The Board laid off approximately 1289 teachers over the summer in response to financial exigencies. None of the teachers laid off for financial exigencies went to the reassigned teachers’ pool. They were honorably terminated without individual hearings, in order of teacher rating, tenure and certification. They seek the same relief for the teachers in all three cases, namely the undoing of the layoffs and back wages for the teachers. In the federal case, CTU also seeks attorneys’ fees. CTU claims damages of an estimated \$50 million plus attorneys’ fees. The value of the attorney fee claim is unknown. The Board is unable to form an opinion regarding the ultimate outcome of this case at this time. On October 4, 2010, a federal district court judge granted CTU’s motion for a finding that the layoffs were improper and prohibited the Board from conducting future layoffs in the same manner. The judge further directed the Board to “rescind” the discharges of tenured teachers and to negotiate recall rules with CTU for future layoffs. The Board anticipates filing an appeal of the judge’s ruling.

Chicago Teacher’s Union Grievance No. 2347/09-03-180. CTU has filed a grievance in which it claims that during the 2008-2009 school year, the Board did not provide 183 teachers with required post-displacement interim teaching assignments as provided in the collective bargaining agreement for certain teachers. In particular, CTU claimed that the Board improperly limited interim assignments to “aged vacancies” by permitting principals 60 days in which to permanently fill vacancies before making interim assignments to those vacancies. An arbitrator found that Board’s practice was inconsistent with the collective bargaining agreement and has set the matter for hearing on the appropriate remedy. CTU claims that 183 teachers, including 60 who subsequently retired, were impacted by the decision. CTU seeks retroactive pay for those employees in amount of approximately \$18.5 million. The Board believes only 23 non-retired teachers were impacted and that the retirees are not eligible for a remedy. Of the 23 impacted non-retired teachers, 18 received interim assignments after the issuance of the arbitration award, leaving only 5 teachers without a remedy. The Board estimates its exposure at \$500,000. The Board continues to vigorously defend this claim.

Chicago Teachers' Pension Fund v. Board 10 CH 29362. The Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago (the "**Fund**") has filed suit against the Board, seeking a declaratory judgment that the Board was required to contribute \$358,843,883.26 as the "required employer contribution" for fiscal year 2010 under section 17–129 of the Illinois Pension Code, 40 ILCS 5/17–129, and a monetary judgment in the amount of \$40,635,883.26, because the Board only contributed \$318,208,000 for FY2010. The Pension Code requires the Fund, on or before February 28 of each year, to "certify to the Board of Education the amount of the required Board of Education contribution for the coming fiscal year..." On February 19, 2009, the Fund sent a letter to the Board, stating in part:

[O]n the basis of the funding plan established by [statute], the actuary has calculated the total employer required contribution for Fiscal Year 2010 to be \$393,266,000. State appropriations are estimated to be \$65,000,000. Additional state contributions under Section 17–127 of the Pension Code amount to \$10,058,000 and additional Board of Education contributions under Section 17–127.2 of the Pension Code amount to \$10,723,000. Thus, based on the total employer required contribution for Fiscal Year 2010 and other sources of employer contribution, the net Board of Education contribution required for Fiscal Year 2010 under the funding plan specified in Section 17–129 of the Pension Code is calculated to be \$307,485,000.

On August 14, 2009, after it became apparent that the State would only appropriate \$32,500,000, and would only contribute \$5,029,000 under section 17–127, the Fund sent another letter to the Board, asserting that the Board's "required employer contribution" for fiscal year 2010 was now \$345,014,000. The Board replied, by letter, on August 27, 2009, stating that the Fund was not permitted to amend its certification letter after February 28. On July 1, 2010, the Fund sent yet another letter, now asserting that since "the total amount of contributions received from the State in Fiscal Year 2010 [was] \$34,422,116.74," and the Board had only contributed \$318,208,000, the Board owed the Fund \$40,635,883.26. The lawsuit echoes these numbers.

The Pension Code does not permit the Fund to amend the amount it has certified to be due from the Board as "required employer contribution" after February 28 of the next fiscal year. Because the amounts the Fund certifies can never be based on actual receipts during the fiscal year to which a certification applies, the Fund's theory of the case is not valid. Ultimately the required employer contribution is a rolling estimate subject to adjustment annually based on actual State and Board contributions and Fund expenses in past years as well as the value of Fund assets and projections of future expenses. However, there is a legal question of first impression as to what amount the Fund's original letter "certified." At this juncture, the Board is unable to form an opinion on the outcome of this case. The Board is vigorously defending this litigation.

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,” “— Overview of Board’s Fiscal Year 2011 Budget and 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 (A) the status of the Series 2010C Bonds as “qualified school construction bonds” within the meaning of Section 54F of the Code or (B) the status of the Series 2010D Bonds as “build America bonds” as defined in Section 54AA(d)(1) of the Code and as “qualified bonds” as defined in Section 54AA(g)(2) 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.

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/ Diana S. Ferguson
Chief Financial Officer

APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2009

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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, 2009, 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, 2009, 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.

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, 2009

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2009

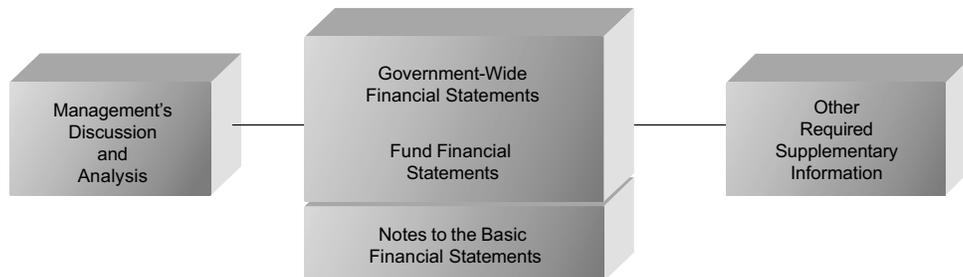
Our discussion and analysis of the financial performance of Chicago Public Schools (CPS) provides an overview of financial activities for the fiscal year ended June 30, 2009. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the transmittal letter, financial statements, and notes to the basic financial statements to further enhance their understanding of CPS' financial performance.

FINANCIAL HIGHLIGHTS

Total fund balance for all funds declined from \$1.7 billion in FY2008 to \$1.1 billion in FY2009. This decrease occurred primarily for two reasons: 1) the State did not pay its \$173 million obligation to the general operating fund on time and 2) the proposed \$550 million of bonds were not issued for the capital projects fund; instead, proceeds from previous bond issuances were used for construction and renovation in FY2009. Due to the State's delayed payments, general operating fund revenues were less than expenditures by \$163 million; additionally, unreserved fund balances declined from \$432 million in FY2008 to \$311 million at the end of FY2009. The current unreserved fund balance represents 6.6% of general operating fund expenditures. In spite of the significant decline in fund balances, CPS was able to end the fiscal year with a healthy general operating fund cash balance of \$1.2 billion, an increase of \$143 million over FY2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of Management's Discussion and Analysis and a series of financial statements and accompanying notes, both primarily focusing on the school district as a whole. The following graphic summarizes the components of the CAFR:



Government-wide financial statements including the Statement of Net Assets and the Statement of Activities provide both short-term and long-term information about 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 unused vacation leave).

Both of the government-wide financial statements distinguish functions of CPS that are principally supported by taxes and inter-governmental 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, capital assets and debt-financing activities are reported here.

Condensed Statement of Net Assets (Millions of dollars)

	Governmental Activities			
	2009	2008	Difference	% Change
Current assets	\$ 3,702	\$3,989	\$(287)	-7.2%
Capital assets, net	5,038	4,683	355	7.6%
Total Assets	<u>\$ 8,740</u>	<u>\$8,672</u>	<u>\$ 68</u>	0.8%
Current liabilities.	\$ 1,153	\$ 924	\$ 229	24.8%
Long-term liabilities	8,033	7,849	184	2.3%
Total Liabilities	<u>\$ 9,186</u>	<u>\$8,773</u>	<u>\$ 413</u>	4.7%
Net Assets:				
Invested in capital assets net of related debt	\$ 30	\$ 133	\$(103)	-77.4%
Restricted for:				
Debt service	435	446	(11)	-2.5%
Specific purposes	105	105	-	0.0%
Unrestricted	<u>(1,016)</u>	<u>(785)</u>	<u>(231)</u>	29.4%
Total Net Assets	<u>\$ (446)</u>	<u>\$ (101)</u>	<u>\$(345)</u>	341.6%

Total assets of \$8.7 billion increased slightly because of \$355 million increases in school construction and other capital projects, which was offset by a decline in current assets of \$287 million.

Capital assets, net of depreciation, increased \$355 million or 7.6% over the prior fiscal year due to the continued progress of the Capital Improvement Program.

Long-term debt decreased \$118 million, or 2.4%. The total long-term portion of debt outstanding and capitalized leases was \$5.04 billion in fiscal year 2008 and \$4.9 billion in fiscal year 2009.

Accrued pension increased to \$1.93 billion in fiscal year 2009 from \$1.86 billion in fiscal year 2008, an increase of \$72.5 million, or 3.9%. 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 \$756.7 million in fiscal year 2009 from \$579.8 million in fiscal year 2008, an increase of \$176.9 million, or 30.5%. 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 \$472.4 million in fiscal year 2009 from \$441.3 million in fiscal year 2008, an increase of \$31.1 million, or 7%. The year-end balance reflects increases in accrued sick pay, vacation pay, tort liabilities, and workers' compensation, of \$26.3 million, \$0.4 million, \$0.6 million, and \$4.9 million respectively, and a decrease of \$1.1 million in auto and general liability.

CPS' net assets decreased \$345 million to (\$446) million. Of this amount, \$30 million represents CPS' investment in capital-assets net of depreciation and related debt. Restricted net assets of \$540 million are reported separately to present legal constraints from debt covenants and enabling legislation. The (\$1,016) 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, 2009.

The following table presents the changes in net assets from fiscal year 2008 to 2009:

Changes in Net Assets
(In millions)

	Governmental Activities			
	2009	2008	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	\$ 13	\$ 12	\$ 1	8.3%
Operating grants and contributions . . .	1,251	946	305	32.2%
Capital grants and contributions	151	129	22	17.1%
Total Program Revenues	<u>\$1,415</u>	<u>\$1,087</u>	<u>\$ 328</u>	30.2%
General Revenues:				
Property taxes	\$1,937	\$1,862	\$ 75	4.0%
Replacement taxes	188	215	(27)	-12.6%
State aid	1,604	1,756	(152)	-8.7%
Interest and investment earnings	44	86	(42)	-48.8%
Gain on sale of fixed assets	—	4	(4)	-100%
Other	56	45	11	24.4%
Total General Revenues	<u>\$3,829</u>	<u>\$3,968</u>	<u>\$(139)</u>	-3.5%
Extraordinary item	<u>\$ 1</u>	<u>\$ —</u>	<u>1</u>	100%
Total Revenues and extraordinary item	<u>\$5,245</u>	<u>\$5,055</u>	<u>\$ 190</u>	3.8%
Expenses:				
Instruction	\$3,325	\$3,138	\$ 187	6.0%
Support services:				
Pupil support services	409	385	24	6.2%
Administrative support services	233	206	27	13.1%
Facilities support services	582	520	62	11.9%
Instructional support services	512	497	15	3.0%
Food services	204	193	11	5.7%
Community services	56	47	9	19.1%
Interest expense	260	274	(14)	-5.1%
Other	9	10	(1)	-10.0%
Total Expenses	<u>\$5,590</u>	<u>\$5,270</u>	<u>\$ 320</u>	6.1%
Change in Net Assets	\$ (345)	\$ (215)	\$(130)	60.5%
Beginning Net Assets	(101)	114	(215)	-188.6%
Ending Net Assets	<u>\$ (446)</u>	<u>\$ (101)</u>	<u>\$(345)</u>	341.6%

Net Assets at June 30, 2009 reflect a decrease of \$345 million from the prior year. Although total revenues increased by \$190 million in FY2009, a \$73 million increase in net pension obligation combined with a \$177 million increase in other post-employment benefit costs exacerbated the ending net assets balance. The growth of \$328 million in Program Revenues resulted from higher federal revenues and \$260 million of federal fiscal stabilization funds the State used to replace General State Aid. Since the State supplanted portions of its General State Aid with the federal stimulus funds, General Revenues declined by the same amount, which is offset by other revenue increases. The State plans to also use federal stimulus funds for education funding in FY2010, therefore this increase in Program Revenue and the commensurate decrease in General Revenues will also occur in FY2010.

Capital Assets

At June 30, 2009, CPS had \$5 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 \$354 million or 7.6% over the prior fiscal year.

(In millions)

	<u>2009</u>	<u>2008</u>	<u>Difference</u>	<u>% Change</u>
Land	\$ 284	\$ 261	\$ 23	8.8%
Buildings	6,398	6,252	146	2.3%
Construction in progress	811	467	344	73.7%
Equipment	<u>159</u>	<u>164</u>	<u>(5)</u>	-3.0%
Total Capital Assets	\$ 7,652	\$ 7,144	\$ 508	7.1%
Less: Accumulated depreciation	<u>(2,615)</u>	<u>(2,461)</u>	<u>(154)</u>	6.3%
Total Capital Assets, net	<u>\$ 5,037</u>	<u>\$ 4,683</u>	<u>\$ 354</u>	7.6%

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 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 and the costs of issuance of \$1.1 million for the substitution were paid with CPS funds.

As a result of the downgrades of several bond insurance firms, CPS restructured and refunded several variable-rate bonds as follows:

In March 2009, CPS issued \$130,000,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009A). The proceeds from these bonds were used to refund the Series 2005E bonds, and CPS contributed \$1.3 million to pay for the costs of issuance. As a result of the issuance, \$130,383,747 was deposited in a trust with an escrow agent to purchase the Series 2005E bonds upon the next remarketing. On March 17, 2009, the bonds were repurchased in full and are considered fully refunded.

In June 2009, CPS issued \$95,675,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009BC) and contributed \$1.2 million to pay for costs of issuance. The proceeds from these bonds were used to refund the Series 2004C-1 and Series 2005D-1 bonds. As a result of the issuance, \$75,672,057 was deposited in a trust with an escrow agent to purchase the Series 2004C-1 bonds upon the next remarketing. CPS deposited \$20,352,278 in a trust with an escrow agent to purchase the Series 2005D-1 bonds upon its next remarketing. On June 25, 2009, the bonds were repurchased in full and are considered fully refunded.

As of June 30, 2009, CPS had \$5.08 billion in total debt, including accreted interest and capitalized lease obligations outstanding versus \$5.12 billion last year, a decrease of 0.7%. For more detailed information, please refer to Notes 8 through 10 to the basic financial statements.

Pension Funding

Employees of CPS participate in either the Public School Teachers' Pension and Retirement Fund of Chicago ("the Teachers' Pension Fund") or the Municipal Employees Annuity and Benefit Fund of Chicago ("the Municipal Fund"). All certified teachers and administrators employed by CPS or Charter Schools are members of the Teachers' Pension Fund. Educational support personnel who do not belong to the Teachers' Pension Fund participate in the Municipal Fund.

State Statutes determine CPS' employer-required contribution to the Teachers' Pension Fund. As of June 30, 2008, the funded ratio of the Teachers' Pension Fund was 79.4%. CPS has recorded an estimated liability of \$1.93 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Because the funded ratio was below 90%, CPS was required to make a \$188.2 million employer contribution to the Teachers' Pension Fund in FY2009, of this amount a total of \$26.6 was funded by federal grants.

By law, the City of Chicago is required to contribute all employer pension costs on behalf of CPS educational support personnel. The statutorily established rate for employer contribution to the Municipal Fund is 10.625% of actual salaries paid two years ago. Covered employees are required by State Statute to contribute 8.5% of their salary. In fiscal year 2009, as in previous fiscal years, CPS paid a portion, 7%, or \$38 million of the required employees' contribution for most employees. Governmental Accounting Standards Board Statement No. 24 requires that on-behalf payments made by other governments should be included as revenues and expenditures as long as they are for employee benefits. CPS has been reporting on-behalf pension costs and revenues since FY1998. For detailed information, please refer to 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. Governmental-fund financial 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.

CPS' fund financial statements provide detailed information about the most significant funds — not CPS as a whole. CPS' governmental funds use the modified accrual basis of accounting. All of CPS' services are reported in governmental funds, 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 CPS' operations and the services it provides.

CPS maintains three 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, 2009, as compared with June 30, 2008. They also depict the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

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

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>2009</u> <u>Percent</u> <u>Of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>From 2008</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u> <u>from 2008</u>
Revenues:					
Property taxes	\$1,897	\$1,814	37.8%	\$ 83	4.6%
Replacement taxes	188	215	3.8%	(27)	- 12.6%
State aid	1,512	1,846	30.1%	(334)	- 18.1%
Federal aid	1,125	876	22.4%	249	28.4%
Investment earnings	44	86	0.9%	(42)	-48.8%
Other	<u>253</u>	<u>181</u>	<u>5.0%</u>	<u>72</u>	<u>39.8%</u>
Subtotal	\$5,019	\$5,018	100.0%	\$ 1	0.0%
Other financing sources	<u>1</u>	<u>248</u>	<u>0.0%</u>	<u>(247)</u>	<u>-99.6%</u>
Total	<u>\$5,020</u>	<u>\$5,266</u>	<u>100.0%</u>	<u>\$(246)</u>	<u>-4.7%</u>
Expenditures:					
Instruction	\$2,773	\$2,575	48.7%	\$ 198	7.7%
Pupil support services	390	362	6.8%	28	7.7%
General support services	1,058	987	18.6%	71	7.2%
Food services	195	182	3.4%	13	7.1%
Community services	56	45	1.0%	11	24.4%
Teachers' pension	237	207	4.2%	30	14.5%
Capital outlay	672	467	11.8%	205	43.9%
Debt service	302	282	5.3%	20	7.1%
Other	<u>9</u>	<u>11</u>	<u>0.2%</u>	<u>(2)</u>	<u>- 18.2%</u>
Total	<u>\$5,692</u>	<u>\$5,118</u>	<u>100.0%</u>	<u>\$ 574</u>	<u>11.2%</u>
Change in Fund Balance	<u>\$ (672)</u>	<u>\$ 148</u>			

General Operating Fund

The general operating fund accounts for financial resources required to run day-to-day operation of a government's activities. The general operating fund ended with a deficit of \$143 million. Operating revenues totaled \$4,580 million, while expenditures amounted to \$4,743 million. Revenues were almost flat at the prior-year level primarily because the State delayed its \$173 million obligation to the general operating fund. Expenditures, on the other hand, increased from \$4,395 million in FY2008 to \$4,743 million in FY2009, which contributed to the general operating fund deficit.

Revenues:

Revenues and Other Financing Sources (Millions of Dollars)

	2009 Amount	2008 Amount	2009 Percent of Total	Increase (Decrease) From 2008	Percent Increase (Decrease) from 2008
Property taxes	\$1,867	\$1,763	40.6%	\$ 104	5.9%
Replacement taxes	133	159	2.9%	(26)	-16.4%
State aid	1,333	1,692	29.0%	(359)	-21.2%
Federal aid	1,123	833	24.4%	290	34.8%
Investment earnings	22	41	0.5%	(19)	-46.3%
Other	102	97	2.2%	5	5.2%
Subtotal	\$4,580	\$4,585	99.6%	\$ (5)	-0.1%
Other financing sources	20	4	0.4%	16	400.0%
Total	<u>\$4,600</u>	<u>\$4,589</u>	<u>100.0%</u>	<u>\$ 11</u>	0.2%

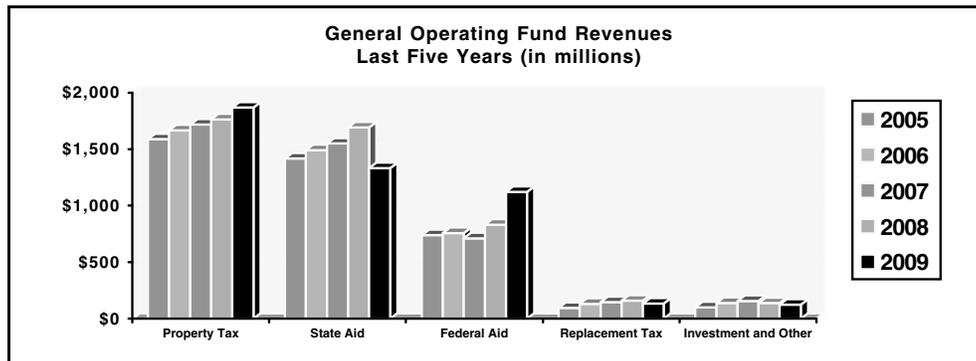
Property tax revenues increased by \$104 million over the prior year resulting from the 2.5% tax-cap increases, higher-than-projected new property growth in 2007, and higher-than-anticipated collection rates.

Personal property replacement taxes decreased by \$26 million from fiscal year 2008, reflecting the significant economic downturn and its effect on corporate profits in Illinois.

State revenues decreased by \$359 million from the prior year for the following reasons: 1) the State did not pay its \$173 million obligation to the general operating fund on time, resulting in a net decrease of \$128 million compared to FY08 actual revenues and 2) the State replaced its General State Aid obligation to CPS with \$260 million of federal stimulus funding to reduce its deficit. These decreases were offset by increases in other state grants.

Federal revenues increased by \$290 million because the State supplanted portions of its General State Aid with \$260 million of federal stimulus funding and more federal revenues were recognized on time as a result of prompt claim activities.

Investment earnings decreased by \$19 million from fiscal year 2008 because the Federal Reserve maintained interest rates at its historical low of 0% to 0.25% in FY2009 to help the U.S. economy out of recession. This interest-rate policy is not expected to change in FY2010.



Expenditures:
(Millions of Dollars)

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>2009 Percent Of Total</u>	<u>Increase (Decrease) From 2008</u>	<u>Percent Increase (Decrease) from 2008</u>
Salaries	\$2,573	\$2,445	54.2%	\$128	5.2%
Benefits	856	767	18.1%	89	11.6%
Services	904	748	19.1%	156	20.9%
Commodities.....	314	307	6.6%	7	2.3%
Other	96	128	2.0%	(32)	-25.0%
Total	<u>\$4,743</u>	<u>\$4,395</u>	<u>100.0%</u>	<u>\$348</u>	7.9%

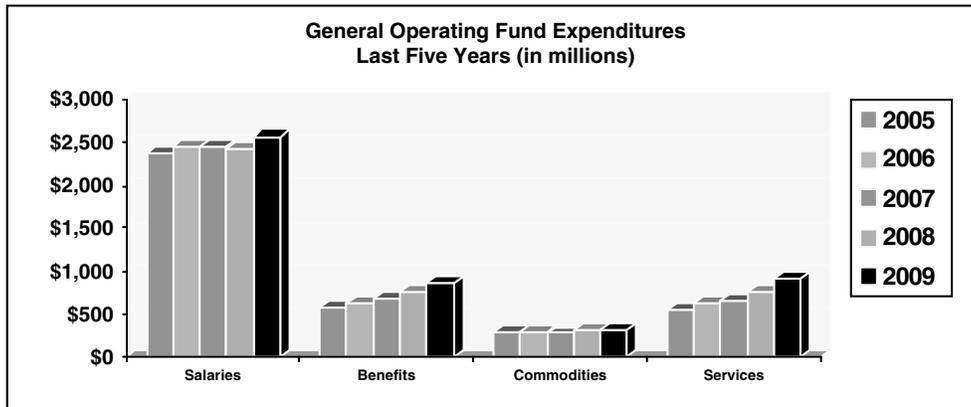
Salaries rose by \$128 million, a direct result of the 4% contractual salary increase and normal step increases.

Benefit costs grew by \$89 million over the previous year primarily because of \$42 million increases in teacher-pension obligations and increases of \$39 million in healthcare costs.

Services increased by \$156 million primarily for the following reasons: Charter school tuition payments rose by \$67 million; program expansion in supplemental after-school programs increased the cost by \$35 million; transportation costs increased by \$7 million, custodial contract costs grew by \$4 million; and high school curriculum update contributed to an additional \$10 million.

Commodities, which account for utilities, food, textbooks, and supplies, increased by \$7 million because of increases in both energy and food costs.

Other expenditures decreased by \$32 million primarily because the prior year balance included a swap termination payment of \$20.5 million; and a decrease in educational equipment and repairs of \$7 million.



Capital Projects Fund

The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities. The use of capital projects funds is required for major capital acquisition and construction activities financed through borrowing or other financing agreements. The proposed \$550 million of bonds were not issued during fiscal year 2009. Rather, proceeds from previous bond issuances were used for on-going construction and renovation projects. As a result, the capital projects fund ended the fiscal year with a deficit of \$505 million.

Revenues and Other Financing Sources (Millions of Dollars)

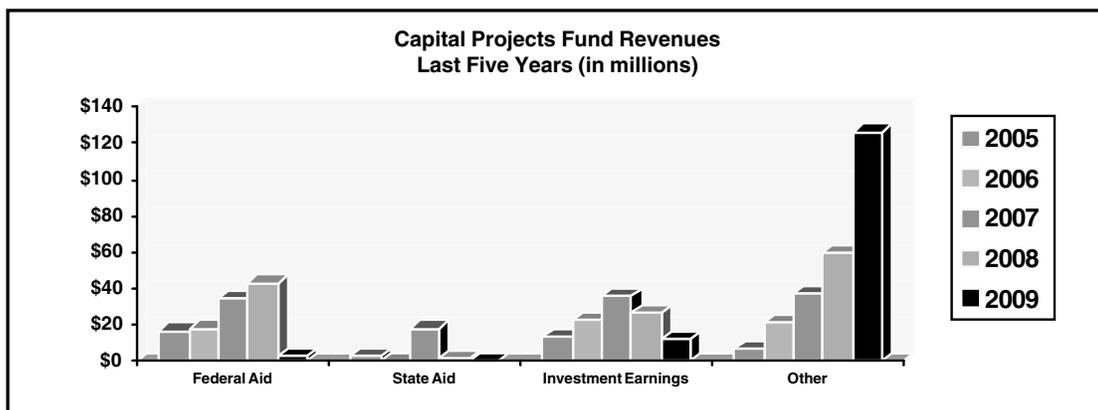
	2009 Amount	2008 Amount	2009 Percent Of Total	Increase (Decrease) From 2008	Percent Increase (Decrease) from 2008
State aid	\$ —	\$ —	0.0%	\$ —	100.0%
Federal aid	3	43	2.1%	(40)	-93.0%
Investment earnings	13	26	9.1%	(13)	-50.0%
Other	126	61	88.1%	65	106.6%
Subtotal	\$142	\$130	99.3%	\$ 12	9.2%
Other financing sources	1	259	0.7%	(258)	-99.6%
Total	<u>\$143</u>	<u>\$389</u>	<u>100.0%</u>	<u>\$(246)</u>	-63.2%

Federal aid decreased by \$40 million because CPS did not receive e-rate funding for Priority 2 projects in FY2009. The Schools and Libraries Division denied CPS' application for internal connections and maintenance for lack of funding in 2009.

Investment earnings declined by \$13 million, a direct result of the low interest-rate environment.

Other revenues increased \$65 million over fiscal year 2008, which represents higher reimbursement of capital project costs under the Modern Schools Across Chicago (MSAC) from the City of Chicago. There were more capital projects completed under MSAC in FY2009 than in FY2008 and, as a result, the reimbursement was higher in FY2009.

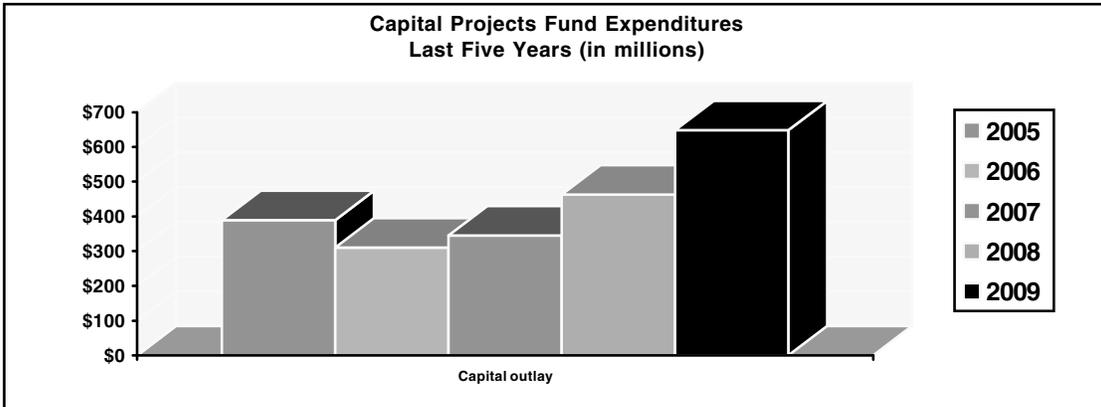
Other financing sources were not utilized in FY2009. CPS did not issue the proposed \$550 million of bonds in FY2009 and instead used proceeds provided by previous bond issuances.



Expenditures:
(Millions of Dollars)

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Increase (Decrease) From 2008</u>	<u>Percent Increase (Decrease) from 2008</u>
Capital Outlay	\$648	\$463	\$185	40.0%

Capital Outlay: In FY2009, the Public Building Commission completed five new schools, one addition, and four major renovation projects, most of which were undertaken under the MSAC arrangement. The increase of \$185 million represents these activities.



Debt Service Fund

The debt service fund is established to account for annual property-tax levies and other revenues that are used for the payment of principal and interest, and lease obligations. To service alternate general-obligation bonds and PBC leases, \$301 million was paid for their principal, interest, and other fees in FY2009, which represents an increase of \$41 million over the prior year. The turmoil in the subprime mortgage sector spread to the municipal bond market in 2008, resulting in higher interest payments for variable-rate bonds with interest-rate swap that CPS owns. The \$41 million increase was caused by much higher interest payments to the variable-rate bonds.

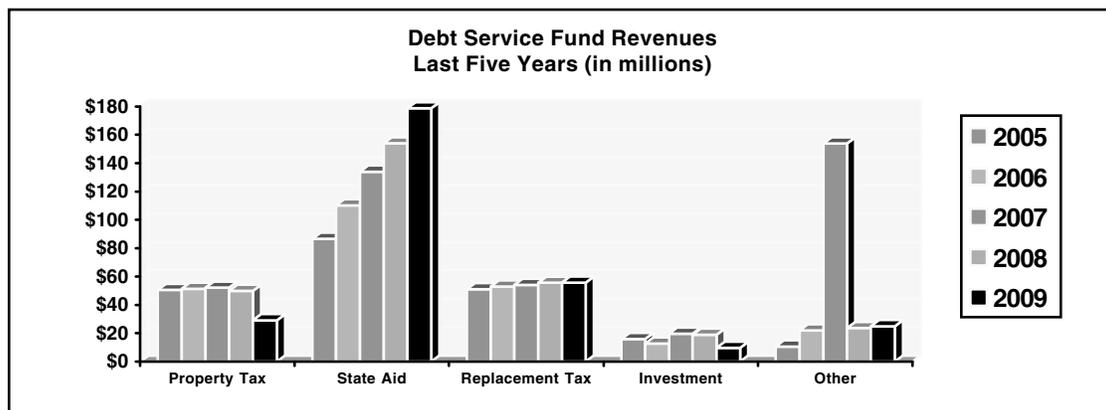
Revenues and Other Financing Sources (Millions of Dollars)

	2009 Amount	2008 Amount	2009 Percent Of Total	Increase (Decrease) From 2008	Percent Increase (Decrease) from 2008
Property taxes	\$ 29	\$ 50	10.5%	\$(21)	-42.0%
Replacement taxes	55	56	19.9%	(1)	-1.8%
State aid	179	154	64.6%	25	16.2%
Investment earnings	10	19	3.6%	(9)	-47.4%
Other	<u>25</u>	<u>24</u>	<u>9.0%</u>	<u>1</u>	<u>4.2%</u>
Subtotal	\$298	\$303	107.6%	\$ (5)	-1.7%
Other financing sources (uses)	<u>(21)</u>	<u>(15)</u>	<u>-7.6%</u>	<u>(6)</u>	<u>40.0%</u>
Total	<u>\$277</u>	<u>\$288</u>	<u>100.0%</u>	<u>\$(11)</u>	<u>-3.8%</u>

Property tax revenues used for the PBC lease payments decreased by \$21 million from the prior year. To reduce the tax burden on property owners, CPS decided to abate the property tax revenues for the PBC debt payments.

State aid required to service alternate bonds increased by \$25 million because of the adverse interest rates and their effect on variable-rate bonds with interest-rate swaptions.

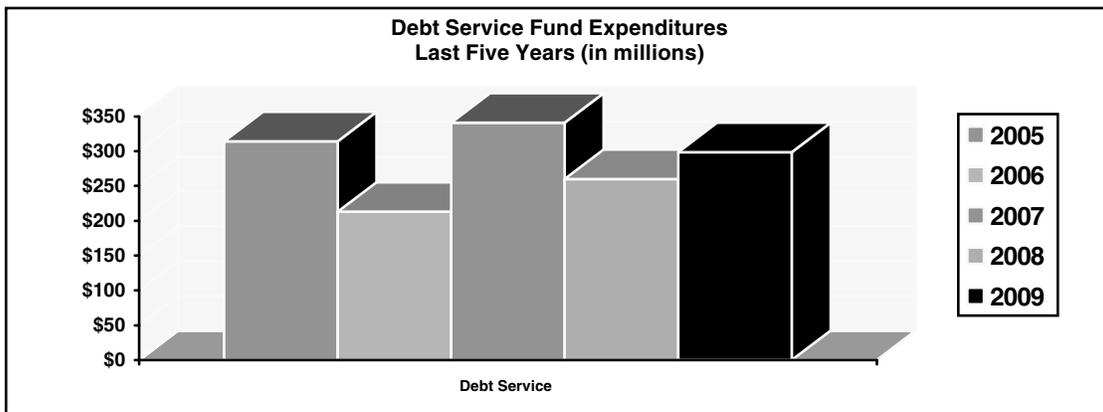
Other revenue mostly accounts for inter-governmental revenues from the City of Chicago to pay for bonds issued in late 1990s. This revenue will grow significantly next year as the debt service cost will fully reflect the total tax levy which expired under the School Finance Authority.



Expenditures:
(Millions of Dollars)

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u> <u>From 2008</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u> <u>from 2008</u>
Debt service	\$301	\$260	\$41	15.8%

Debt Service costs increased by \$41 million because interest rates for variable-rate bonds with interest-rate swaps and their related fees rose significantly higher than those in FY2008.



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.

OPERATING FUND BUDGET VS ACTUAL

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

The budget is prepared by unit, fund, account, program and grant. 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 2009 there were no amendments to the original budget.

The following schedule presents a summary of the operating fund revenues, expenditures, and other financing sources in comparison with the final budget for the period ending June 30, 2009.

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

	<u>FY 2009 Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>FY 2009 Actual</u>	<u>Variance</u>
Revenues:					
Property taxes	\$1,831	\$ —	\$1,831	\$1,867	\$ 36
Replacement taxes	136	—	136	133	(3)
State aid	1,733	—	1,733	1,333	(400)
Federal aid	869	—	869	1,123	254
Investment earnings	32	—	32	22	(10)
Other	109	—	109	102	(7)
Subtotal	<u>\$4,710</u>	<u>\$ —</u>	<u>\$4,710</u>	<u>\$4,580</u>	<u>\$(130)</u>
Other financing sources	—	—	—	20	20
Total	<u>\$4,710</u>	<u>\$ —</u>	<u>\$4,710</u>	<u>\$4,600</u>	<u>\$(110)</u>
Expenditures:					
Salaries	\$2,614	\$ (4)	\$2,610	\$2,573	\$ (37)
Benefits	878	(17)	861	856	(5)
Services	759	160	919	904	(15)
Commodities	318	20	338	314	(24)
Other fixed charges	286	(159)	127	96	(31)
Total	<u>\$4,855</u>	<u>\$ —</u>	<u>\$4,855</u>	<u>\$4,743</u>	<u>\$(112)</u>
Change in Fund Balance	<u>\$ (145)</u>			<u>\$ (143)</u>	

The General Operating Fund ended FY2009 with a deficit of \$143 million which is very close to the budgeted deficit of \$145 million. FY2009 coincided with the most severe recession since World War II, and aggressive actions taken by the Federal Reserve, Treasury and Congress have affected CPS' finances both directly and indirectly. The Fed lowered its target interest rates from 2.0% in July to almost zero in December 2008, which immediately decreased investment earnings for CPS. In February 2009, Congress passed the America Recovery and Reinvestment Act, an economic stimulus package worth \$787 billion, which contained aid to state governments and local educational agencies. The State of Illinois was able to

use about \$1.0 billion of these state fiscal stabilization funds to replace its state obligation to school districts in FY2009. CPS received \$260 million of these stabilization funds in lieu of the State General State Aid, which decreased total state revenues by \$260 million while increasing total federal revenues by the same amount.

Mostly revenues reflected these economic events that the budget could not anticipate for FY2009. Actual operating revenues declined by \$130 million in FY2009 compared with budget. Major budget-to-actual variances are described below:

Property tax revenues were \$36 million higher than budget as a result of higher-than-estimated new property growth in 2007 and higher-than-budgeted collection rates in spring 2009. The depressed real estate market and high foreclosure rate did not affect the property tax receipts negatively.

Replacement tax revenue was \$3 million lower than budget. The budget assumed a decline of 11% from the prior year but the actual receipts decreased by 12% as a result of the severe economic contraction and its effect on corporate income taxes.

State revenues were \$400 million lower than budget for two reasons. First, the State could not pay its FY2009 obligations of \$173 million to CPS on time. Second, the State replaced \$260 million of the General State Aid to CPS with federal stimulus funding, thereby decreasing total state revenues by the same amount.

Federal revenues were \$254 million higher than budget because the State unexpectedly replaced portions of its General State Aid to CPS with \$260 million of federal stimulus funding to reduce its budget deficit.

Investment earnings and other revenue was \$17 million lower than budget due to lower investment income and lower private foundation grants. Interest earnings were budgeted at 2.5% to 3% per annum but actual interest rates became less than one percent because the Federal Reserve lowered interest rates to lift the U.S. out of the recession.

Actual General Operating Fund expenditures were \$112 million under budget. The variance is primarily due to:

Salary expenditure was under budget by \$37 million because fewer teachers retired than expected and the average termination pay dropped, termination payout was \$21 million below what the budget assumed. In addition, after-school and summer-school costs for non-teachers were less than budget by \$12 million.

Benefit costs were under budget by \$5 million reflecting savings from vacancy and turn-over.

Services expenditure was under budget by \$15 million due to lower spending for professional services.

Commodities expenditure was under budget by \$24 million because schools did not purchase textbooks and supplies as much as budgeted.

Other Fixed charges expenditure was under budget by \$31 million because the contingency budget set aside for grants were not all spent because of timing differences and insurance costs came in less than the budget.

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.

In August 2009, the Board adopted a balanced budget for fiscal year 2010 that reflected total resources, including \$106.4 million of available fund balances, and appropriations of \$5.33 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 CPS' finances and to show 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, 2009

(Thousands of Dollars)

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and investments	\$ 1,250,988
Cash and investments in escrow	583,415
Cash and investments held in school internal accounts	30,359
Property taxes receivable, net of allowance	1,055,561
Other receivables:	
Replacement taxes	29,417
State aid, net of allowance	612,208
Federal aid	52,276
Other, net of allowance	56,052
Other assets	32,241
Total Current Assets:	<u>\$ 3,702,517</u>
Non-current Assets:	
Land and construction in progress	1,095,384
Buildings, building improvements and equipment, net of accumulated depreciation	3,942,282
Total Non-current Assets:	<u>\$ 5,037,666</u>
Total Assets	<u>\$ 8,740,183</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 369,499
Accrued payroll and benefits	536,107
Amount held for student activities	30,359
Unearned revenue	33,869
Interest payable	20,138
Current portion of long-term debt and capitalized lease obligations	162,977
Total Current Liabilities:	<u>\$ 1,152,949</u>
Long-term liabilities:	
Debt, net of premiums and discounts	4,556,909
Capitalized lease obligations	361,490
Other accrued liabilities	20,830
Pension	1,929,885
Other postemployment benefits	756,653
Other benefits and claims	407,894
Total Long-term liabilities:	<u>\$ 8,033,661</u>
Total Liabilities	<u>\$ 9,186,610</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 30,202
Restricted for:	
Debt service	434,694
Donations	3,695
Enabling legislation	101,072
Unrestricted	(1,016,090)
Total Net Assets	<u>\$ (446,427)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009
(Thousands of Dollars)

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
<i>Governmental activities:</i>					
Instruction	\$3,324,936	\$ 5,189	\$ 688,669	\$ 94,583	\$(2,536,495)
Support services:					
Pupil support services	408,705	—	32,334	13,314	(363,057)
Administrative support services	233,361	—	78,853	7,602	(146,906)
Facilities support services	582,539	—	102,303	13,891	(466,345)
Instructional support services	512,427	—	150,732	14,577	(347,118)
Food services	203,880	8,298	161,524	5,776	(28,282)
Community services	56,392	—	36,111	1,662	(18,619)
Interest expense	259,850	—	—	—	(259,850)
Other	<u>8,504</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,504)</u>
Total Governmental Activities	<u>\$5,590,594</u>	<u>\$13,487</u>	<u>\$1,250,526</u>	<u>\$151,405</u>	<u>\$(4,175,176)</u>
General revenues:					
Taxes:					
Property taxes					\$1,936,656
Replacement taxes					188,503
Non-program state aid					1,603,926
Interest and investment earnings					43,692
Gain on sale of capital assets					91
Other					56,132
Extraordinary item — gain on impairment of capital assets					<u>708</u>
Total general revenues and extraordinary item					<u>\$3,829,708</u>
Change in net assets					\$ (345,468)
Net assets — beginning					<u>(100,959)</u>
Net assets — ending					<u>\$ (446,427)</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS
June 30, 2009
(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	\$1,163,974	\$ —	\$ 87,014	\$1,250,988
Cash and investments in escrow	5,952	223,752	353,711	583,415
Cash and investments held in school internal accounts	30,359	—	—	30,359
Receivables:				
Property taxes, net of allowance	1,027,526	—	28,035	1,055,561
Replacement taxes	29,417	—	—	29,417
State aid, net of allowance	612,201	7	—	612,208
Federal aid	50,571	1,705	—	52,276
Other	7,243	47,035	1,774	56,052
Due from other funds	112,015	26,214	—	138,229
Other assets	4,356	—	—	4,356
Total Assets	<u>\$3,043,614</u>	<u>\$298,713</u>	<u>\$470,534</u>	<u>\$3,812,861</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 289,477	\$ 65,997	\$ 14,025	\$ 369,499
Accrued payroll and benefits	471,602	—	—	471,602
Amount held for student activities	30,359	—	—	30,359
Due to other funds	26,214	110,338	1,677	138,229
Deferred property tax revenue	1,021,708	—	27,943	1,049,651
Other deferred/unearned revenue	677,380	21,641	—	699,021
Total Liabilities	<u>\$2,516,740</u>	<u>\$197,976</u>	<u>\$ 43,645</u>	<u>\$2,758,361</u>
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	\$ 110,685	\$100,737	\$ —	\$ 211,422
Reserved for restricted donations	3,695	—	—	3,695
Reserved for specific purposes	101,072	—	—	101,072
Reserved for debt service	—	—	272,273	272,273
Unreserved:				
Designated to provide operating capital	181,200	—	—	181,200
Undesignated	130,222	—	154,616	284,838
Total Fund Balances	<u>\$ 526,874</u>	<u>\$100,737</u>	<u>\$426,889</u>	<u>\$1,054,500</u>
Total Liabilities and Fund Balances	<u>\$3,043,614</u>	<u>\$298,713</u>	<u>\$470,534</u>	<u>\$3,812,861</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 BALANCE SHEET — GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2009

(Thousands of Dollars)

Total fund balances — governmental funds	\$ 1,054,500
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	27,885
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	7,652,613
Accumulated depreciation	(2,614,947)
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	\$ (20,830)
Debt, net of premiums and discounts	(4,692,541)
Capitalized lease obligations	(388,835)
Pension	(1,929,885)
Other postemployment benefits	(756,653)
Other benefits and claims	<u>(472,399)</u>
	(8,261,143)
Interest payable	(20,138)
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	1,049,651
Other deferred/unearned revenue	<u>665,152</u>
Net Assets	<u><u>\$ (446,427)</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, 2009

With Comparative Amounts for the Fiscal Year Ended June 30, 2008

(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, 2009</u>	<u>Total Fiscal Year Ended June 30, 2008</u>
REVENUES:					
Property taxes	\$1,867,350	\$ —	\$ 29,190	\$1,896,540	\$ 1,813,917
Replacement taxes	132,819	—	55,684	188,503	215,489
State aid	1,333,182	—	178,704	1,511,886	1,846,034
Federal aid	1,122,805	2,775	—	1,125,580	876,041
Interest and investment earnings	21,405	12,530	9,758	43,693	85,895
Other	102,107	126,385	24,884	253,376	181,028
Total Revenues	<u>\$4,579,668</u>	<u>\$ 141,690</u>	<u>\$ 298,220</u>	<u>\$5,019,578</u>	<u>\$ 5,018,404</u>
EXPENDITURES:					
Instruction	\$2,773,440	\$ —	\$ —	\$2,773,440	\$ 2,575,124
Pupil support services	390,399	—	—	390,399	362,325
Administrative support services	222,908	—	—	222,908	193,696
Facilities support services	407,332	—	—	407,332	385,601
Instructional support services	427,432	—	—	427,432	407,608
Food services	194,603	—	—	194,603	181,778
Community services	56,003	—	—	56,003	45,708
Teacher's pension and retirement benefits	237,011	—	—	237,011	206,651
Capital outlay	24,110	648,302	—	672,412	466,895
Debt service	1,037	—	301,169	302,206	282,142
Other	8,504	—	—	8,504	10,652
Total Expenditures	<u>\$4,742,779</u>	<u>\$ 648,302</u>	<u>\$ 301,169</u>	<u>\$5,692,250</u>	<u>\$ 5,118,180</u>
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	<u>\$ (163,111)</u>	<u>\$(506,612)</u>	<u>\$ (2,949)</u>	<u>\$ (672,672)</u>	<u>\$ (99,776)</u>
OTHER FINANCING SOURCES (USES):					
Gross amounts from debt issuances	\$ —	\$ —	\$ 225,675	\$ 225,675	\$ 1,674,555
Premiums	—	—	—	—	41,226
Insurance proceeds	—	1,155	—	1,155	—
Sales of general capital assets	—	91	—	91	6,404
Payment to refunded bond escrow agent	—	—	(226,408)	(226,408)	(1,474,081)
Transfers in/(out)	20,389	—	(20,389)	—	—
Total other financing sources (uses)	<u>\$ 20,389</u>	<u>\$ 1,246</u>	<u>\$ (21,122)</u>	<u>\$ 513</u>	<u>\$ 248,104</u>
NET CHANGE IN FUND BALANCES	<u>\$ (142,722)</u>	<u>\$(505,366)</u>	<u>\$ (24,071)</u>	<u>\$ (672,159)</u>	<u>\$ 148,328</u>
Fund Balances, beginning of period	669,596	606,103	450,960	1,726,659	1,578,331
Fund Balances, end of period	<u>\$ 526,874</u>	<u>\$ 100,737</u>	<u>\$ 426,889</u>	<u>\$1,054,500</u>	<u>\$ 1,726,659</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 STATEMENT OF REVENUES, EXPENDITURES, AND NET CHANGES
IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2009

(Thousands of Dollars)

Total net change in fund balances — governmental funds		\$(672,159)
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	\$ 534,359	
Depreciation expense	<u>(179,793)</u>	
		354,566
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		(225,675)
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		308,400
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		(42,486)
Governmental 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		2,889
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		40,117
Grants		184,594
In the Statement of Activities, pollution remediation obligation, legal settlements, sick pay, vacation pay, workers' compensation, general and automobile liability, 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 paid measured by the amount actually paid		
Pollution remediation obligation		(14,783)
Legal settlements		(600)
Sick pay		(26,258)
Vacation pay		(416)
Workers' compensation		(4,973)
General and automobile liability		1,150
Net pension obligation		(72,537)
Other postemployment benefits — Teacher		(176,850)
In the Statement of Activities, gain or loss on disposal of capital assets is reported, whereas in the government funds, the entire proceeds are recorded.		<u>(447)</u>
Change in Net Assets		<u><u>\$(345,468)</u></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, 2009
(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	\$1,831,160	\$ —	\$1,831,160	\$1,867,350	\$ 36,190
Replacement taxes	135,820	—	135,820	132,819	(3,001)
State aid	1,732,817	—	1,732,817	1,333,182	(399,635)
Federal aid	868,808	—	868,808	1,122,805	253,997
Interest and investment income	32,400	—	32,400	21,405	(10,995)
Other	108,716	—	108,716	102,107	(6,609)
Total Revenues	<u>\$4,709,721</u>	<u>\$ —</u>	<u>\$4,709,721</u>	<u>\$4,579,668</u>	<u>\$(130,053)</u>
EXPENDITURES:					
Salaries —					
Teachers	\$2,016,166	\$ (29,056)	\$1,987,110	\$1,975,940	\$ 11,170
Career services	598,041	24,526	622,567	597,533	25,034
Commodities —					
Energy	88,736	2	88,738	92,354	(3,616)
Food	90,746	(1,867)	88,879	89,592	(713)
Textbooks	78,392	19,518	97,910	86,356	11,554
Supplies	58,811	3,065	61,876	44,572	17,304
Other	1,329	(309)	1,020	998	22
Services —					
Professional fees	376,532	92,814	469,346	440,921	28,425
Charter schools	205,000	51,340	256,340	256,154	186
Transportation	89,342	15,753	105,095	109,351	(4,256)
Tuition	69,741	(5,458)	64,283	63,858	425
Telephone and telecommunications	5,784	(370)	5,414	19,426	(14,012)
Other	12,539	6,319	18,858	13,935	4,923
Equipment — Educational	18,602	16,785	35,387	34,450	937
Building and sites —					
Repairs and replacements	33,810	298	34,108	34,772	(664)
Capital outlay	22	—	22	12	10
Fixed charges —					
Teachers' pension	400,350	(1,522)	398,828	392,801	6,027
Career service pension	96,675	210	96,885	93,791	3,094
Hospitalization and dental insurance	301,735	(13,758)	287,977	299,206	(11,229)
Medicare	36,934	(1,415)	35,519	33,667	1,852
Unemployment compensation	10,937	(315)	10,622	8,599	2,023
Workers compensation	31,431	(766)	30,665	28,148	2,517
Rent	12,091	1,218	13,309	12,000	1,309
Debt service	1,037	—	1,037	1,037	—
Other	220,138	(177,012)	43,126	13,306	29,820
Total Expenditures	<u>\$4,854,921</u>	<u>\$ —</u>	<u>\$4,854,921</u>	<u>\$4,742,779</u>	<u>\$ 112,142</u>
REVENUES IN EXCESS OF/(LESS THAN)					
EXPENDITURES	<u>\$ (145,200)</u>	<u>\$ —</u>	<u>\$ (145,200)</u>	<u>\$ (163,111)</u>	<u>\$ (17,911)</u>
OTHER FINANCING SOURCES					
Transfers in	\$ —	\$ —	\$ —	\$ 20,389	\$ 20,389
Total other financing sources	\$ —	\$ —	\$ —	\$ 20,389	\$ 20,389
NET CHANGE IN FUND BALANCE					
Fund Balance, beginning of period	\$ (145,200)	\$ —	\$ (145,200)	\$ (142,722)	\$ 2,478
Fund Balance, end of period	<u>\$ 524,396</u>	<u>\$ —</u>	<u>\$ 524,396</u>	<u>\$ 526,874</u>	<u>\$ 2,478</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, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

New Accounting Standards

During fiscal year 2009, CPS adopted GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Please refer to Note 15 for required disclosures.

Other accounting standards that CPS is currently reviewing for applicability include:

- GASB 51, *Accounting and Financial Reporting for Intangible Assets*, effective for CPS with its year ended June 30, 2011. This statement establishes accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby, enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.
- GASB 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.
- GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* is effective for CPS with its year ended June 30, 2011. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. A description of the activities of the various funds is provided below.

Governmental Funds

a. General Operating Fund

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

- Educational Program
- Supplementary General State Aid Program
- School Food Service Program
- 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2008 property taxes were levied for fiscal year 2009 in December 2008, and were billed in fiscal year 2009. In 2009, the installment due dates were March 3 and December 1. 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. During fiscal year 2009, there was a capital asset impairment in one of CPS' schools; this impairment is property reflected in the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 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.

In August 2009, the Board adopted a balanced budget for fiscal year 2010 that reflected total resources, including \$106.4 million of available reserved fund balances, and appropriations of \$5.33 billion for the General Operating Fund.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

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 2009. 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* — CPS levies property taxes using tax levy rates established by statute and an equalized assessed valuation (EAV) estimated by 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 2009 and 2008 are shown below.

	Maximum 2009 Legal Limit	Tax Rates Extended Per \$100 of EAV	
		2009	2008
General Operating Fund:			
Educational	(A)	\$2.426	\$2.376
Workers' and Unemployment Compensation/Tort Immunity	(B)	.031	.191
Public Building Commission Operations and Maintenance	(B)	.000	.000
Debt Service Fund:			
Public Building Commission Leases Program	(C)	.015	.016
		<u>\$2.472</u>	<u>\$2.583</u>

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

- 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.
 - 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	\$ 683,096	\$ 683,096
Supplementary General State Aid	212,862	212,862
General Education Block Grant	133,885	178,513
Educational Services Block Grant	358,725	516,848
Other Restricted State Revenue	<u>123,318</u>	<u>128,625</u>
Total State Aid	<u>\$1,511,886</u>	\$1,719,944
Program Revenues:		
Operating Grants and Contributions		<u>(116,018)</u>
Non-Program General State Aid		<u>\$1,603,926</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-

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

party custodian in the name of the City of Chicago Treasurer for the benefit of CPS. Collateral shall be only those securities authorized as allowable investments.

As of June 30, 2009, the book amount of the CPS' deposit accounts was \$15.8 million. The bank balances totaled \$36.4 million as of June 30, 2009. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2009. The bank balance was covered by Federal Depository Insurance and by collateral held by third-party custodians.

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

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 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, 2009, 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	\$ 77,782	\$ 77,782	\$ —
U.S. Government Agency Securities	AAA	415,289	231,467	183,822
Commercial Paper	A1 or A1+/P-1	199,863	199,863	—
Money Market Mutual Funds	AAA	1,156,055	1,156,055	—
Total Investments		<u>\$1,848,989</u>	<u>\$1,665,167</u>	<u>\$183,822</u>
Cash		15,773		
Total Cash and Investments		<u>\$1,864,762</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,

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

2009, 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, 2009, Standard and Poor's rated CPS' investments in money market mutual funds AAA as required by the CPS Investment Policy.

Concentration of Credit Risk — As of June 30, 2009, 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.

Custodial Risk — During the fiscal year ended June 30, 2009, 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, 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, 2009 (\$000's):

<u>Fund:</u>	<u>Amount</u>
General Operating Fund	\$1,200,285
Capital Projects Fund.	223,752
Debt Service Fund.	440,725
Total Cash and Investments	<u>\$1,864,762</u>

NOTE 5. RECEIVABLES

Receivables as of June 30, 2009 for 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	\$1,127,073	\$1,127,073
Replacement taxes	29,417	29,417
State aid	616,050	616,050
Federal aid	52,276	52,276
Other	58,553	58,553
Total Receivables	\$1,883,369	\$1,883,369
Less: Allowance for uncollectibles — property tax	(71,512)	(71,512)
Less: Allowance for uncollectibles — state aid	(3,842)	(3,842)
Less: Allowance for uncollectibles — other	(2,501)	(2,501)
Total Receivables, net	<u>\$1,805,514</u>	<u>\$1,805,514</u>

NOTE 5. RECEIVABLES (continued)

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, 2009, the components of deferred revenue reported in the fund financial statements are as follows (\$000's):

Deferred property taxes	\$1,049,651
Other deferred revenue	665,152
Unearned revenue	<u>33,869</u>
Total Deferred Revenue	<u>\$1,748,672</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows (\$000's):

<u>Government-wide activities:</u>	<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	\$ 261,337	\$ 22,896	\$ (3)	\$ 284,230
Construction in progress	<u>467,100</u>	<u>549,501</u>	<u>(205,447)</u>	<u>811,154</u>
Total capital assets not being depreciated . .	<u>\$ 728,437</u>	<u>\$ 572,397</u>	<u>\$(205,450)</u>	<u>\$ 1,095,384</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 6,251,840	\$ 168,800	\$ (22,640)	\$ 6,398,000
Equipment and administrative software	<u>164,057</u>	<u>4,843</u>	<u>(9,671)</u>	<u>159,229</u>
Total capital assets being depreciated	<u>\$ 6,415,897</u>	<u>\$ 173,643</u>	<u>\$ (32,311)</u>	<u>\$ 6,557,229</u>
Total Capital Assets	<u>\$ 7,144,334</u>	<u>\$ 746,040</u>	<u>\$(237,761)</u>	<u>\$ 7,652,613</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(2,413,073)	\$(172,578)	\$ 15,961	\$(2,569,690)
Equipment and administrative software	<u>(47,713)</u>	<u>(7,215)</u>	<u>9,671</u>	<u>(45,257)</u>
Total accumulated depreciation	<u>\$(2,460,786)</u>	<u>\$(179,793)</u>	<u>\$ 25,632</u>	<u>\$(2,614,947)</u>
Capital Assets, net of depreciation	<u>\$ 4,683,548</u>	<u>\$ 566,247</u>	<u>\$(212,129)</u>	<u>\$ 5,037,666</u>

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

Governmental activities:	
Instruction	\$112,915
Pupil support services	15,894
Administrative support services	9,075
Facilities support services	16,584
Instructional support services	17,402
Food services	<u>7,923</u>
Total Depreciation	<u>\$179,793</u>

Construction Commitments

CPS had active construction projects as of June 30, 2009. These projects include new construction and renovations of schools. At year-end, CPS had approximately \$100.7 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.

General Operating Fund:	
Due from Capital Improvement Program	\$ 110,338
Due to Capital Asset Program	(26,214)
Due from Bond Redemption and Interest Program	1,677
Total — Due from other Funds	<u>\$ 85,801</u>
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	\$ 26,214
Capital Improvement Program — Due to General Operating Fund	(110,338)
Total — Due to other Funds	<u>\$ (84,124)</u>
Debt Service Fund:	
Bond Redemption and Interest Program — Due to General Operating Fund	<u>\$ (1,677)</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

To reduce the tax burden for taxpayers, CPS decided to abate Public Building Commission (PBC) tax levies in the amount of \$40 million in fiscal year 2009, by transferring \$40 million from the Bond Redemption and Interest Program to the PBC Leases Program. Because the decision was made in July 2008, the PBC lease fund had already received its 2008 spring allocation based on the assumption that the PBC levy would be a full \$52 million. To true-up this over-allocation of property tax revenues that occurred in the prior fiscal year, CPS made an operating transfer of \$18.6 million from the PBC Lease Program to the General Operating Fund.

CPS also made operating transfers of \$0.9 million from the Public Building Commission Leases Program to the General Operating Fund to transfer interest earnings and operating transfers of \$0.9 million from the Bond Redemption and Interest Program to the General Operating Fund to pay for costs associated with the insurance substitution of the series 2005D outstanding bonds.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

Unlimited Tax General Obligation Bonds (Series 2005D)

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 and costs of issuance of \$1.1 million for the substitution were paid with CPS funds.

NOTE 8. LONG-TERM DEBT (continued)

As a result of the downgrades of several bond insurance firms, CPS issued the following refunding bonds to restructure its variable rate debt in fiscal year 2009:

Unlimited Tax General Obligation Refunding Bonds (Series 2009A)

In March 2009, CPS issued \$130,000,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009A). The proceeds from these bonds were used to refund the Series 2005E bonds. CPS contributed \$1.3 million to pay for costs of issuance. As a result of the issuance, \$130,383,747 was deposited in a trust with an escrow agent to purchase the Series 2005E bonds upon the next remarketing. On March 17, 2009, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid by revenues received from Pledged 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	\$130,000
Amounts on hand related to refunded debt.	<u>384</u>
Total	<u>\$130,384</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.2 million. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. 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 (Series 2009BC)

In June 2009, CPS issued \$95,675,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009BC) and contributed \$1.2 million to pay for costs of issuance. The proceeds from these bonds were used to refund the Series 2004C-1 and Series 2005D-1 bonds. As a result of the issuance, \$75,672,057 was deposited in a trust with an escrow agent to purchase the Series 2004C-1 bonds upon the next remarketing. CPS deposited \$20,352,278 in a trust with an escrow agent to purchase the Series 2005D-1 bonds upon its next remarketing. On June 25, 2009, 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	\$95,675
Amounts on hand related to refunded debt.	<u>349</u>
Total	<u>\$96,024</u>

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.3 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.

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, 2008	Issuances	Retirements	Principal Outstanding June 30, 2009	Accreted Interest	Principal and Accreted Interest June 30, 2009
2009C	\$ —	\$ 20,265	\$ —	\$ 20,265	\$ —	\$ 20,265
2009B	—	75,410	—	75,410	—	75,410
2009A	—	130,000	—	130,000	—	130,000
2008C	464,655	—	—	464,655	—	464,655
2008B	240,975	—	(4,825)	236,150	—	236,150
2008A	262,785	—	—	262,785	—	262,785
2007D	238,720	—	(5,655)	233,065	—	233,065
2007BC	204,635	—	(295)	204,340	—	204,340
2006B	353,060	—	(5,915)	347,145	—	347,145
2006A	6,853	—	—	6,853	—	6,853
2005DE	313,485	—	(156,430)	157,055	—	157,055
2005B	52,595	—	—	52,595	—	52,595
2005A	193,585	—	—	193,585	—	193,585
2004G	12,500	—	—	12,500	—	12,500
2004E	33,310	—	(4,155)	29,155	—	29,155
2004D	53,030	—	—	53,030	—	53,030
2004C-2	48,910	—	—	48,910	—	48,910
2004C-1	75,410	—	(75,410)	—	—	—
2004A	205,410	—	—	205,410	—	205,410
2003C	4,585	—	—	4,585	—	4,585
2003A	58,960	—	(5,375)	53,585	—	53,585
2002A	47,175	—	(1,135)	46,040	—	46,040
2001C	23,950	—	(4,330)	19,620	—	19,620
2001B	9,440	—	—	9,440	—	9,440
2001A	4,765	—	(870)	3,895	—	3,895
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	531,325	—	(2,295)	529,030	200,538	729,568
1998B-1	328,714	—	—	328,714	234,309	563,023
1998	14,000	—	—	14,000	—	14,000
1997A	37,985	—	—	37,985	32,543	70,528
1997	61,315	—	(10,605)	50,710	—	50,710
1996	49,460	—	(3,390)	46,070	—	46,070
Total Bonds	<u>\$4,276,507</u>	<u>\$225,675</u>	<u>\$(280,685)</u>	<u>\$4,221,497</u>	<u>\$467,390</u>	<u>\$4,688,887</u>
Note Payable	2,516	—	(1,198)	1,318	—	1,318
Asbestos Abatement Loans	3,747	—	(1,037)	2,710	—	2,710
Total Long-Term Debt	<u>\$4,282,770</u>	<u>\$225,675</u>	<u>\$(282,920)</u>	<u>\$4,225,525</u>	<u>\$467,390</u>	<u>\$4,692,915</u>
Less Current Portion						(135,632)
Deferred Amounts:						
On Refunding						(97,616)
For Net Premium/(Discount)						<u>97,242</u>
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						<u>\$4,556,909</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	\$(112,097)
Note Payable	(1,318)
Asbestos Abatement Loans	(872)
Accreted Interest	(26,498)
Refunding	5,153
Subtotal	<u>\$(135,632)</u>
Lease obligations	<u>(27,345)</u>
Total Current Portion	<u><u>\$(162,977)</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, 2009 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	\$ 51,750
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>\$396,070</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, the 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 unhedged variable rate bonds assume the debt service deposit requirement rate and net swap payments assume that variable rates as of June 30, 2009, remain the same through their term. Debt

NOTE 8. LONG-TERM DEBT (continued)

service requirements for the Unlimited Tax General Obligation Bonds and net swap payments are scheduled as follows (\$000's):

Fiscal Year(s)	Fixed Rate Bonds		Variable Rate Bonds			Total
	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	
2010	\$ 99,057	\$ 137,116	\$ 13,040	\$ 36,770	\$ 36,550	\$ 322,533
2011	99,837	136,607	14,385	36,183	36,359	323,371
2012	118,881	130,539	15,040	35,376	36,160	335,996
2013	90,643	132,236	23,275	34,514	35,950	316,618
2014	109,012	134,733	24,535	33,888	35,472	337,640
2015-2019	554,303	623,725	151,010	158,247	169,150	1,656,435
2020-2024	772,749	623,401	201,820	131,308	153,513	1,882,791
2025-2029	725,173	543,364	396,065	100,256	115,500	1,880,358
2030-2034	411,797	466,245	289,560	48,534	33,573	1,249,709
2035-2037	44,500	4,547	66,815	4,212	2,113	122,187
Total	\$3,025,952	\$2,932,513	\$1,195,545	\$619,288	\$654,340	\$8,427,638

* Interest on Series 2000B,C,D unhedged variable rate demand notes was calculated at an assumed rate of 6% per annum, interest on unhedged Series 2004CDE and Series 2005DE variable rate demand notes calculated at an assumed rate of 4.5% per annum (equals 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, 2009, and was calculated as follows:

Series 2000C — 1.0000%
 Series 2004C — 5.5000%
 Series 2005D — 6.5500%
 Series 2008A — 0.6200%
 Series 2008B — 0.6200%
 Series 2009A — 0.2750%
 Series 2009B — 0.1800%

** Series 2000C computed: (3.823% — 0.216125%) x Outstanding Principal
 Series 2004C computed: (3.825% — 0.216125%) x Outstanding Principal
 Series 2005D computed: (3.6617% — 0.216125%) x Outstanding Principal
 Series 2008A computed: (5.25% — 0.4961%) x Outstanding Principal
 Series 2008B computed: (3.771% — 0.216125%) x Outstanding Principal
 Series 2009A computed: (3.6617% — 0.216125%) x Outstanding Principal
 Series 2009B computed: (3.825% — 0.216125%) 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 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, 2009, there were no bonds drawn under the Standby Bond Purchase Agreement.

The \$131,095,000 Series 2004CDE and \$157,055,000 Series 2005D bonds are supported by Standby Bond Purchase Agreements with Depfa Bank PLC which expire on December 8, 2012. Under the

NOTE 8. LONG-TERM DEBT (continued)

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, 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. As of June 30, 2009, \$53,030,000 was drawn for Series 2004D bonds and \$29,155,000 for Series 2004E bonds under the Standby Bond Purchase Agreements.

The \$65,000,000 Series 2009A-1 are supported by a Letter of Credit Facility with Harris Bank NA and \$65,000,000 Series 2009A-2 are supported by The Northern Trust Company both of which expire on March 17, 2012. Under the Letter of Credit Agreements, any bonds put to the bank would incur an interest rate equal to the greater of the Prime Rate, Federal Funds Rate plus ½ of 1%, and LIBOR Quoted Rate plus 1% (the Base Rate) for the first 7 days. For the 8th through 90th day, interest would incur at the Base Rate plus 1.0%, for the 91st through 180th day, interest would incur at the Base Rate plus 2.0% and thereafter, or in the event of default, the interest rate is the greater of the Prime Rate, Federal Funds Rate plus ½ of 1%, and LIBOR Quoted Rate plus 1%, plus 3.00% for the first 180 days, thereafter at the maximum rate allowed under Illinois law not to exceed 15% per annum. The commitment fee is 0.85% per annum for the Series 2009A bonds and at June 30, 2009, there were no bonds drawn under the Letter of Credit Agreements.

The \$75,410,000 Series 2009B and \$20,265,000 Series 2009C are supported by a Letter of Credit Facility with US Bank which expires on June 24, 2012 for Series 2009B and March 8, 2012 for Series 2009C. Under the Letter of Credit Agreements, any bonds put to the bank would incur an interest rate equal to the greater of the Prime Rate and LIBOR Quoted Rate plus 2% (the Base Rate) for the first 89 days. For the 90th through 179th day interest would incur at the Base rate plus 3.5%, and for the 180th day and thereafter at the maximum rate allowed under Illinois law, not to exceed 15% per annum. In the event of default, the interest rate would be the Base Rate, plus 5.5% for the first 180 days; thereafter at the maximum rate allowed under Illinois law, not to exceed 15% per annum. The commitment fee is 1.55% per annum for the Series 2009B bonds, and 1.0% per annum for the Series 2009C and at June 30, 2009 there were no bonds drawn under the Letter of Credit Agreements.

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

<u>Series</u>	<u>Accreted Interest June 30, 2008</u>	<u>Increase</u>	<u>Payment</u>	<u>Accreted Interest June 30, 2009</u>
1997A.	\$ 28,872	\$ 3,671	\$ —	\$ 32,543
1998B-1	206,623	27,686	—	234,309
1999A.	177,469	24,284	(1,215)	200,538
	<u>\$412,964</u>	<u>\$55,641</u>	<u>\$(1,215)</u>	<u>\$467,390</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 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 a \$3.7 million lease with an option to purchase with the Teachers Academy of Math and Science. The assets acquired under this lease are land and building at a cost of \$0.7 million and \$3 million, respectively. 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, 2009, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Other</u>	<u>Total</u>
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	51,981	424	52,405
2015-2019	260,218	2,118	262,336
2020-2021	30,636	719	31,355
Total Rentals	\$ 550,428	\$ 4,957	\$ 555,385
Less — Interest and other costs	(164,043)	(2,507)	(166,550)
Principal amount of rental due	<u>\$ 386,385</u>	<u>\$ 2,450</u>	<u>\$ 388,835</u>

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

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>
PBC Leases	\$411,690	\$—	\$(25,305)	\$386,385
Other Capitalized Leases	2,625	—	(175)	2,450
	<u>\$414,315</u>	<u>\$—</u>	<u>\$(25,480)</u>	<u>\$388,835</u>
Less: Current Portion PBC Leases				(27,170)
Current Portion Other Capitalized Leases				(175)
Total Long-Term Leases Outstanding				<u>\$361,490</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, 2009 were \$19.6 million. Following is a summary of operating lease commitments as of June 30, 2009 (000's):

<u>Fiscal Year(s)</u>	<u>Non-Real property leases</u>	<u>Real Property leases</u>	<u>Total</u>
2010	\$ 9,311	\$10,862	\$ 20,173
2011	7,863	10,741	18,604
2012	5,668	9,873	15,541
2013	2,198	9,662	11,860
2014	335	9,710	10,045
2015-2019	19	17,395	17,414
2020-2024	—	8,179	8,179
2025	—	156	156
Total Operating Lease Commitments	<u>\$25,394</u>	<u>\$76,578</u>	<u>\$101,972</u>

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

Series 2009A

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%. During fiscal year 2009, CPS refunded Series 2005E. The swap was transferred to Series 2009A. The intention of transferring the swap was to effectively change the variable interest rate to a fixed interest rate of 3.6617% plus 0.50%.

Swap terms. The bonds and the related swap agreement mature on March 1, 2036, and the total notional amount of the swap equals the \$130,000,000 of Series 2009A variable rate bonds. Starting in fiscal year 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 London Interbank Offered Rate (LIBOR).

Fair value. As of June 30, 2009, 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

Credit risk. As of June 30, 2009, CPS was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap 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, 2009

<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	<u>\$130,000,000</u>	Aa1	A+	<u>\$(13,061,234)</u>

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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, 2009, the weighted average variable rate was 0.275% and 70% of LIBOR was 0.2161%. To mitigate the potential for basis risk, CPS' annual debt service fund deposit is calculated at a rate of 4.162%.

Termination risk. CPS or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. The swap 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 swap 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 swap is terminated, the Series 2009A 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 2009B

Swap Objective. CPS entered into an interest rate swap associated with the issuance of the Series 2004C bonds in February 2008 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 3.8257%. During fiscal year 2009, CPS refunded a portion of the Series 2004C bonds and the swap was transferred to Series 2009B. The intention of transferring the swap was to effectively change the variable interest rate to a fixed interest rate of 3.825% plus 0.50%.

Swap terms. The bonds and the related swap agreement mature on March 1, 2031, and the total notional amount of the swaps equals the \$75,410,000 of Series 2009B variable rate bonds. 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 the London Interbank Offered Rate (LIBOR).

Fair value. As of June 30, 2009, 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

Credit risk. As of June 30, 2009, 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, 2009

<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>	
Royal Bank of Canada	<u>\$75,410,000</u>	Aaa	AA-	<u>\$(10,958,136)</u>

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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 3.825% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2009, the weighted average variable rate was 0.18% and 70% of LIBOR was 0.2161%. To mitigate the potential for basis risk, CPS's annual debt service fund deposit is calculated at a rate of 4.325%.

Termination risk. CPS or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. The swap 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 swap is terminated, the Series 20009B 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 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 years 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 with Series 2008A private placement variable rate bonds (\$262M). 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 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 swaps, 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 years 2006 and 2007. Because CPS received an upfront payment and the fixed payments are higher than current market, the swaps have negative fair value. 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, 2009 (see table below).

Credit risk. As of June 30, 2009, 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

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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, 2009

<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	Aa3	AA-	\$(30,611,661)
Royal Bank of Canada	162,785,000	Aaa	AA-	(45,894,419)
Total	<u>\$262,785,000</u>			<u>\$(76,506,080)</u>

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, 2009, the weighted average rate paid on the bonds was .62% and 70% of LIBOR plus .28% was .4961%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 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 (\$240M). 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 .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 2008B private placement bonds. Starting in fiscal year 2018, the notional value of the swaps decline by the same amount of the associated principal amortization. Under the swaps, CPS pays each counterparty a fixed payment of 3.771% and receives a variable payment computed at the 70% of the London Interbank Offered Rate (LIBOR) through March 1, 2034.

Fair value. As of June 30, 2009, the swaps have a negative fair value as a result of long term interest rates decreasing since the execution of the swaps. 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Credit risk. As of June 30, 2009, 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 swaps will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

In October 2008, Lehman Brothers Special Financing Inc., filed for bankruptcy. The current mark-to-market valuation of the swap is in favor of Lehman Brothers Special Financing. CPS is not required to post collateral related to the agreement. During the fiscal year, Lehman Brothers Special Financing has been looking for another counterparty to replace them as the counterparty. On July 13, 2009, CPS filed an objection to the Assignment notice delivered on June 30, 2009 from Lehman Brothers Special Financing. In accordance with the Order Pursuant to Section 105 and 365 of the Bankruptcy Code to establish procedures for the settlement or assumption and assignment of Prepetition Derivative contracts, the Board objects to the assignment notice on grounds of the Board has no obligation to pay the swap payment to Lehman Brothers Special Financing as a result of continuing defaults. At this time, Lehman Brothers Special Financing, Inc. has not assigned the swap to another existing counterparty.

Swap Counterparty Data as of June 30, 2009

<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	NR	NR	\$(12,355,770)
Goldman Sachs	90,000,000	A1	A	(11,662,495)
Total	<u>\$185,350,000</u>			<u>\$(24,018,265)</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 rate securities be more than .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, 2009, the weighted average rate paid to bondholders was .62% and 70% of LIBOR was .2161%.

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.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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) and receives a 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, 2009, the swaps have 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

Credit risk. As of June 30, 2009, 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, 2009

<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>	
Loop Financial	\$116,151,000	Aa1	A+	\$(2,007,794)
Merrill Lynch	77,434,000	A2	A	\$(2,293,780)
Total	<u>\$193,585,000</u>			<u>\$(4,301,574)</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 contracts, 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, 2009, the SIFMA rate was 0.350%. As of June 30, 2009, the rate received by Loop Financial was 0.7401% (70% of LIBOR + 52.4 basis points) and was 0.2494% from Merrill Lynch (80.764% of LIBOR), effectively lowering the stated coupon on the bonds by a weighted average of 0.1938% .

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 swaps have a negative fair value, CPS would be liable to the counterparty for payment equal to the swaps' fair value.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Series 2005D

Swap Objective. CPS entered into an interest rate swap associated with the issuance of the Series 2005D 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 \$157,055,000 of Series 2005D variable rate bonds. Starting in fiscal year 2026, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swaps, CPS pays the counterparty a fixed payment of 3.6617% and receives a variable payment computed at 70% of the London Interbank Offered Rate (LIBOR).

Fair value. As of June 30, 2009, 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

Credit risk. As of June 30, 2009, CPS was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap 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, 2009

<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	<u>\$157,055,000</u>	Aa1	A+	<u>\$(19,692,126)</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, 2009, the weighted average variable rate was 6.55% and 70% of LIBOR was 0.2161%. To mitigate this adverse basis differential, CPS's annual debt service fund deposit was calculated at a rate of 7.00%.

Termination risk. CPS or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. The swap 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 swap 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 swap is terminated, the Series 2005D 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 10. DERIVATIVE INSTRUMENTS (continued)

Series 2000C and Series 2004C

Swap Objective. In February 2008, CPS entered into an interest rate swap associated with Series 2000C and Series 2004C bonds with Royal Bank of Canada. The intention of entering into the swap was to effectively change the variable interest rate on the bonds to a fixed interest rate of 3.823% 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 London Interbank Offered Rate (LIBOR).

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 \$48,910,000. 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 the London Interbank Offered Rate (LIBOR). During fiscal year 2009, a portion of the Series 2004C bonds (Notional amount \$75,410,000) were refunded and that portion of the swap was then transferred to Series 2009B.

Fair value. As of June 30, 2009, 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, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2009 (see table below).

Credit risk. As of June 30, 2009, 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, 2009

<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-	\$ (8,585,280)
Royal Bank of Canada	48,910,000	Aaa	AA-	\$ (7,107,076)
Total	<u>\$110,010,000</u>			<u>\$(15,692,356)</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, Series 2000C and Series 2004C bonds 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, 2009, the weighted average variable rate was 1.00% for Series 2000C and 5.50% for Series 2004C and 70% of LIBOR was .2161%. To mitigate this adverse basis differential in Series 2004C, CPS' annual debt service fund deposit is calculated at a rate of 8.50%.

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

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2000C and Series 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 June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2009</u>
Accrued Sick Pay Benefits	\$269,045	\$ 63,133	\$(36,876)	\$295,302
Accrued Vacation Pay Benefits	73,890	11,544	(11,128)	74,306
Accrued Workers' Compensation Claims	86,818	30,956	(25,983)	91,791
Accrued General and Automobile Claims	10,149	—	(1,149)	9,000
Tort Liabilities and Other Claims	<u>1,400</u>	<u>1,343</u>	<u>(743)</u>	<u>2,000</u>
Total	<u>\$441,302</u>	<u>\$106,976</u>	<u>\$(75,879)</u>	<u>\$472,399</u>
Less: Current Portion of Accrued Sick Pay Benefits				(56,038)
Less: Current Portion of Accrued Vacation Pay Benefits				<u>(8,467)</u>
Total Other Long-term Liabilities				<u>\$407,894</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 11 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.

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

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

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

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 2009, 2008 and 2007 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 Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

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.

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 \$54 million has been recorded for health insurance costs as a part of accrued payroll in the General Operating Fund, which includes \$31 million for estimated medical claims incurred but not reported as of June 30, 2009. Following is the activity related to medical claims for which the CPS is self-insured (\$000's):

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2009</u>
<u>\$55,641</u>	<u>\$273,403</u>	<u>\$(280,580)</u>	<u>\$48,464</u>	<u>\$333,514</u>	<u>\$(327,938)</u>	<u>\$54,040</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, 2008, the most recent report, there were 32,086 active participants in the Pension Fund, substantially all of who were employees of the CPS.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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 2009, as in previous fiscal years, the CPS paid a portion (7% — \$129.7 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.

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

Retirement benefit contribution:

A contribution from the State of Illinois	\$ 74,845
A contribution to increase funded ratio to 90%	161,559
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	<u>26,665</u>
Total contributions.	<u>\$263,069</u>

For the fiscal year ended June 30, 2009, employee contributions are \$166.8 million which is 9% of covered payroll. Employer contributions for the year are \$263.1 million which is approximately 14% 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 CPS' employer share of pension expenditures of \$263.1 million and amounts incurred by CPS for a portion of the required employees' pension contribution of \$129.7 million, which total \$392.8 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.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

The CPS' annual pension costs for fiscal years 2009, 2008 and 2007 are as follows (\$000's):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual required contribution (ARC)	\$ 292,146	\$ 290,073	\$ 370,210
Interest on Net Pension Obligation (NPO)	148,588	140,114	121,042
Adjustment to annual required contribution	<u>(105,127)</u>	<u>(99,133)</u>	<u>(85,639)</u>
Annual Pension Cost (APC).	\$ 335,607	\$ 331,054	\$ 405,613
Less: Contributions made	<u>(263,069)</u>	<u>(225,134)</u>	<u>(167,209)</u>
Increase in NPO	\$ 72,538	\$ 105,920	\$ 238,404
Add NPO, beginning of year	<u>1,857,347</u>	<u>1,751,427</u>	<u>1,513,023</u>
NPO, end of year	<u>\$1,929,885</u>	<u>\$1,857,347</u>	<u>\$1,751,427</u>
Actuarial valuation date	June 30, 2008		
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%		

At June 30, 2008, 2007 and 2006 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows (\$000's):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial value of assets	\$ 12,069,417	\$ 11,759,699	\$ 10,947,998
Less: Actuarial Accrued Liability (AAL)	<u>(15,203,741)</u>	<u>(14,677,184)</u>	<u>(14,035,627)</u>
AAL unfunded (liability) / surplus	<u>\$ (3,134,324)</u>	<u>\$ (2,917,485)</u>	<u>\$ (3,087,629)</u>
Funded ratio.	79.4%	80.1%	78.0%
Covered payroll	\$ 1,914,559	\$ 1,863,182	\$ 1,944,358
Unfunded AAL as a percentage of covered payroll	163.7%	156.6%	158.8%
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual pension cost	\$ 335,607	\$ 331,054	\$ 405,613
Percentage of annual pension cost contributed	78.4%	68.0%	41.2%
Net Pension Obligation	\$1,929,885	\$1,857,347	\$1,751,427

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, 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 \$161.6 million in fiscal year 2009 to increase the funded ratio to 90% and will make an additional General Operating Fund appropriation of \$318.2 million for the fiscal year ended June 30, 2010, a portion of this amount will be

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

funded by grant funds from the Federal government for teachers paid from certain Federally-funded programs. During fiscal year 2009, CPS did not offer an early retirement incentive program.

Pension — Other Personnel

All career service employees of 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, 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 2009, as in previous fiscal years, CPS agreed to pay a portion (7% — \$38 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. The amount reflected as career service pension expenditures in the accompanying governmental fund financial statements is \$93.8 million, \$38 million of this amount represents the required employees' contribution paid by CPS on behalf of its employees; \$50.3 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining \$5.5 million is funded under Federally-funded programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund.

Career service pension expense in the government-wide financial statements is \$93.8 million.

As of December 31, 2008, the date of the latest available report, the Annuity Fund had net assets of approximately \$4.7 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately \$3.9 billion. The CPS employs approximately 16,400 of the 32,563 active participants in the Annuity Fund. 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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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 2008 and 2007. 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, 2008, the most recent available data, there were 15,166 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.

The CPS' annual OPEB costs for fiscal year 2009, 2008 and 2007 are as follows (\$000's):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual required contribution	\$171,880	\$150,033	\$209,446
Interest on net OPEB obligation	26,091	21,255	10,666
Adjustment to annual required contribution	<u>(21,121)</u>	<u>(16,589)</u>	<u>(8,324)</u>
Annual OPEB cost	\$176,850	\$154,699	\$211,788
Less: Contributions made	<u>—</u>	<u>—</u>	<u>—</u>
Increase in OPEB	\$176,850	\$154,699	\$211,788
Add OPEB, beginning of year	<u>\$579,803</u>	<u>\$425,104</u>	<u>213,316</u>
OPEB, end of year	<u><u>\$756,653</u></u>	<u><u>\$579,803</u></u>	<u><u>\$425,104</u></u>

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	4.5%
Medical trend rate	5%
Inflation	3%

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At June 30, 2008, 2007 and 2006 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows (\$000's):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial value of assets	\$ 44,989	\$ 47,402	\$ 41,058
Less: Actuarial Accrued Liability (AAL)	<u>(2,407,122)</u>	<u>(2,022,008)</u>	<u>(2,373,774)</u>
AAL unfunded (liability) / surplus	<u>\$(2,362,133)</u>	<u>\$(1,974,606)</u>	<u>\$(2,332,716)</u>
Funded ratio	1.9%	2.3%	1.7%
Covered payroll	\$ 1,914,559	\$ 1,863,182	\$ 1,944,358
Unfunded AAL as a percentage of covered payroll	123.4%	105.9%	119.7%
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB cost	\$176,850	\$154,699	\$211,788
Percentage of annual pension cost contributed	0%	0%	0%
Net OPEB obligation	\$756,653	\$579,803	\$425,104

Other Personnel

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2009.

NOTE 13. 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	\$ 47,859
Supplementary General State Aid	<u>53,213</u>
Total	<u>\$101,072</u>

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2009 Supplementary General State Aid allocation.

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 2010 budget, CPS appropriated in its General Operating Fund \$45.6 million of fund balances from amounts reserved for specific purposes and \$60.8 million of general fund balance.

In its fiscal year 2009 budget, CPS designated \$258 million to provide working capital. In its fiscal year 2010 budget, CPS has designated \$181.2 million to provide working capital.

During fiscal year 2009, the Board reserved \$274.8 million for Debt Service of which \$240 million was allocated to the Bond Redemption and Interest Program and the remaining \$34.8 million was allocated to the Public Building Commission Leases Program.

NOTE 13. FUND BALANCE RESERVATIONS AND NET ASSET RESTRICTIONS (continued)

b. Net Assets Restrictions

The government-wide statement of net assets reports \$539.5 million of restricted net assets, of which \$434.7 is restricted for Debt service, \$3.7 million is restricted for Donations and \$101.1 is restricted by Enabling legislation.

NOTE 14. THE CHICAGO SCHOOL FINANCE AUTHORITY

In 1979, 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 CPS.

The Authority is a separate body politic and corporate and a unit of local government with the power to levy property taxes. According to the Illinois School Code, Chapter 105, Article 34A, Section 604 the Authority will remain in existence until one year after all bonds and notes issued by it have been discharged. Upon the abolition of the Authority, all of its rights and property shall pass to and be vested in the Board. As of June 30, 2009, the bonds are considered to be fully repaid. Therefore, the Authority will be abolished in June 2010.

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, 2009, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2009.

b. Pollution remediation obligation.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. CPS implemented GASB Statement 49 for the fiscal year ended June 30, 2009, and recorded a pollution remediation obligation of \$14.8 million as current year expense in the Statement of Activities.

Several CPS facilities contain hazardous contaminants such as lead and asbestos, which is continually monitored by the school district. CPS' pollution remediation obligation is primarily related to the removal of lead and asbestos during the remodeling and/or expansion of CPS facilities. The pollution remediation obligation is derived from construction contracts and the amount assumes no unexpected change orders.

c. 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, 2009, 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, 2009.

NOTE 16. SUBSEQUENT EVENTS

Unlimited Tax General Obligation Refunding Bonds (Series 2009D)

In July 2009, Chicago Public Schools issued \$75,720,000 in Unlimited Tax General Tax Obligation Refunding Bonds (Series 2009D) at a premium of \$4,238,498. The proceeds from these bonds along with certain debt service funds on hand were used to refund \$53,030,000 of Series 2004D Bonds and \$29,155,000 of Series 2004E bonds and pay costs of issuance of the bonds. On July 30, 2009, 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. 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 will be made for this refunding.

Unlimited Tax General Obligation (Series 2009E) Taxable Build America Bonds "Direct Payment" and (Series 2009F) Tax-Exempt Bonds

In September 2009, Chicago Public Schools issued \$518,210,000 in Unlimited Tax General Obligation Bonds (Series 2009E) Taxable Build America Bonds. The Board has made the election to have Section 54AA of the Internal Revenue Code of 1986, as amended (the "Code") apply to the Series 2009E Bonds so the Series 2009E Bonds may qualify as "build America bonds" under Code Section 54AA(d). The Board has also made the election to have Section 54AA(g) of the Code apply to the Series 2009E Bonds in order to receive the refundable credits allowed to issuers pursuant to Sections 54AA(g)(1) and 6431 of the Code with respect to "qualified bonds" (the "Federal Subsidy Payments"). Under current law, the Federal Subsidy Payments are to be paid by the United States directly to any issuer of bonds that qualify as "build America bonds" and as "qualified bonds" in an amount equal to 35% of the interest payable by such issuer on such bonds on each interest payment date, provided that certain requirements, as described in the Code and related IRS pronouncements, as to the uses and investment of the bond proceeds and other matters, are continuously satisfied by such issuer. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.

In September 2009, Chicago Public Schools issued \$29,125,000 in Unlimited Tax General Obligation Bonds (Series 2009F) Tax-Exempt Bonds at a premium of \$2,221,004. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.

Unlimited Tax General Obligation Bonds (Series 2009G)

In December 2009, Chicago Public Schools issued \$254,240,000 in Unlimited Tax General Obligation Bonds (Series 2009G) 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 and a component relating to the tax credits, which the Owners of the Bonds will be allowed under the Code. In addition to the tax credits, the Bonds were issued bearing interest at a supplemental coupon rate of 1.75% per annum. 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 additional interest (in addition to the Supplemental Coupon) at the tax credit rate. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURES

The following is a summary of certain provisions of the Series 2010C Indenture and the Series 2010D Indenture not summarized elsewhere in this Official Statement. Reference is made to each of the Series 2010C Indenture and the Series 2010D Indenture for a complete description thereof. The discussion herein is qualified by such reference.

SERIES 2010C INDENTURE

Definitions of Certain Terms

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

“*Additional Bonds*” means any Alternate Bonds issued in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged State Aid Revenues with the Bonds, the Prior 2009 Authorization Bonds, and the Series 2010DFG Bonds as authorized by Section 7.4(B) of 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 Credit*” means, for a particular year, as of January 31st of that year, the excess (if any) of the sum of the Investment Securities and the moneys then held in the Principal Sub-Account over the aggregate amount of all Annual Sinking Fund Payments required to have been made prior to such date pursuant to Section 5.6(A) of the Indenture, as adjusted pursuant to Section 5.6(B) of the Indenture.

“*Annual Sinking Fund Payment*” means, with respect to each year, the required deposit to the Principal Sub-Account determined pursuant to Section 5.5 of the Indenture.

“*Authorized Denomination*” means with respect to Bonds \$5,000 or any integral multiple thereof.

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

“*Available 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.

“*Bond Payment Account*” means the Bond Payment Account established in Section 5.4 of the Indenture.

“*Bond Resolution*” means Resolution No. 10-0428-RS1, adopted by the Board on April 28, 2010, authorizing the issuance of the Bonds, as amended by Resolution No. 10-0922-RS1 adopted by the Board on September 22, 2010.

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

“*Bonds*” means the \$257,125,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds—Direct Payment), of the Board, being issued under the Indenture and any Bonds issued under the Indenture in substitution or replacement therefor.

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

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

“*Costs of Issuance Account*” means the account of that name established in Section 5.3 of the Indenture.

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

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

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

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

“*Debt Service Fund*” means the Debt Service Fund established in Section 5.4 of 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 Sections 5.5(A) and 7.6(B) of the Indenture.

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

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

“*DTC Participant*” shall mean any securities broker or dealer, bank, trust company, clearing corporation or other organization recognized by DTC as a participant pursuant to the book-entry only system described in Section 2.2(G) of the Indenture.

“*Expenditure Termination Date*” means November 2, 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 Section 8.1 of the Indenture.

“*Federal Subsidy Revenues*” means those payments to be received by the Board from the United States Department of the Treasury, pursuant to Section 6431 of the Code (and implementing regulations or other regulatory guidance promulgated by the Internal Revenue Service), in respect of the issuance by the Board of the Bonds as “Taxable Qualified School Construction Bonds—Direct Payment.”

“*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 is 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 October 1, 2010, by and between the Board and the Trustee, as from time to time amended and supplemented.

“*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

(iv) 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 Section 2.2(G) of 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 Article II, Section 4.5 or Section 11.6 of the Indenture; and

(iv) Bonds deemed to have been paid as provided in Section 12.1(B) of the Indenture.

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

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

“*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 \$300,000,000 available under the 2009 Authorization in amounts each year as shall provide for (i) the payment of the Bonds, the 2010 DFG Bonds, the Prior 2009 Authorization Bonds and the provision of not less than an additional 0.10 times such amounts in such years, and pledged under the Indenture as security for the Bonds and (ii) the payment of any applicable percentages of Swap Payments.

“*Pledged State Aid Revenues Account*” means the account of that name in the Debt Service Fund established in Section 5.4 of 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 Section 5.4 of 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 Sub-Account*” means the sub-account of that name in the Bond Payment Account established in Section 5.4 of the Indenture.

“*Prior 2009 Authorization Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A and the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B of the Board issued pursuant to the 2009 Authorization.

“*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, 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 Section 5.2 of 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 fifteenth day of the calendar month next preceding 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.

“*Series 2010A Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A of the Board.

“*Series 2010A Indenture*” means the Trust Indenture dated as of February 1, 2010, between the Board and The Bank of New York Mellon Trust Company, N.A. Chicago, Illinois, as trustee, providing for the issuance of the Series 2010A Bonds.

“*Series 2010B Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B of the Board.

“*Series 2010B Indenture*” means the Trust Indenture, dated as of February 1, 2010 between the Board and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as Trustee providing for the issuance of the Series 2010B Bonds.

“*Series 2010D Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds—Direct Payment).

“*Series 2010D Indenture*” means that certain Trust Indenture dated as of October 1, 2010, by and between the Board and The Bank of New York Mellon Trust Company, N.A., as from time to time amended and supplemented.

“*Series 2010FG Indenture*” means that certain Trust Indenture dated as of October 1, 2010, by and between the Board and Amalgamated Bank of Chicago, as from time to time amended and supplemented relating to the Series 2010F Bonds and the Series 2010G Bonds.

“*Series 2010F Bonds*” means Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F.

“*Series 2010G Bonds*” means Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G.

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

“*Swap Agreement*” means any agreement between the Board and a counterparty or Swap Provider, 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 Section 5.4 of 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.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., and any successor or successors appointed under the Indenture. 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.

“*2009 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 09-0722-RS11 adopted by the Board on July 22, 2009, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$2,300,000,000.

“*2010DFG Bonds*” means collectively, the Series 2010D Bonds, the Series 2010F Bonds, and the Series 2010G Bonds.

“*2010DFG Indentures*” means collectively, the Series 2010D Indenture and the Series 2010FG Indenture.

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

Pledge of Trust Estate

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, according to the import thereof, and the performance and observance of each and every covenant and condition herein and in the Bonds contained, and for and in consideration of the premises and of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the respective Owners (as hereinafter defined) thereof, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds shall be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become Owners thereof, the Board does hereby pledge and grant a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, 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 payment of the Bonds is on a parity with the pledge of such revenues to the payment of the Prior 2009 Authorization Bonds and the Series DFG Bonds; each Series constituting a Series of Alternate Bonds of the Board issued pursuant to the 2009 Authorization;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture except the Swap Payment Account; 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 under the Indenture without any physical delivery or further act, and the lien and pledge under 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 shall have been extended for collection, in which case the Outstanding Bonds shall 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 shall 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, and shall not, except as expressly authorized in the Indenture, 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. The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged State Aid Revenues available under the 2009 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, the Prior 2009 Authorization Bonds and the Series 2010DFG Bonds; *provided, however*, that no Additional Bonds shall be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Pledged State Aid Revenues available under the 2009 Authorization subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 2009 Authorization that are available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Account hereunder during such year.

Provisions Regarding QSCB Designation of the Bonds

In accordance with the requirements of Sections 54A and 54F of the Code, the Board has designated the Bonds as “qualified school construction bonds”. In accordance with Section 6431(f)(3)(B) of the Code, under the Indenture, the Board irrevocably elects to have the provisions of Section 6431(f) of the Code, relating to direct pay “specified tax credit bonds,” apply to the Bonds. The Board is not obligated to maintain the status of the Bonds as “qualified school construction bonds” as defined in the Code.

Provisions Regarding Payment of Bonds

The principal and Redemption Price of the Bonds shall be payable at the designated corporate trust offices of the Trustee, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed pursuant to the Indenture for the Bonds. Interest on the Bonds shall be 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 no later than the Record Date. The Bonds shall be payable, with respect to interest, principal and 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 shall be transferable only upon the registration books of the Board, which shall be kept for that 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 shall 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 of the Bond or its duly authorized attorney, may, at the option of the Owner and upon payment of any taxes, fees or charges as provided in the Indenture, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denominations.

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 shall not be required to make any registration, transfer or exchange of any Bond 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 the Costs of Issuance Account

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

Moneys in the Cost of Issuance Account will be invested as described below under “**Investment of Funds**”.

Establishment and Application of the 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 Project Costs upon receipt by the Trustee of a certificate of an Authorized Officer of the Board (upon which the Trustee may rely without further investigation) describing the Project Costs to be paid or reimbursed with such moneys.

Moneys in the Project Fund will be invested as described below under “**Investment of Funds**”.

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 and the Costs of Issuance Account (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 November 1 of certain years into the Principal Sub-Account as provided in the Indenture, subject to adjustment as described in the Indenture, each such deposit 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 or by extraordinary optional redemption pursuant to this paragraph, then the Annual Sinking Fund Payment due on each November 1 after the redemption date shall be reduced as directed by the Board in accordance with as set forth in the Indenture. See “**SECURITY FOR THE BONDS – Debt Service Fund and Accounts – Series 2010C Indenture**”.

The Board shall suspend annual deposits to the Pledged State Aid Revenues Sub-Account pursuant to Section 5.5(A) of the Indenture and annual deposits to the Pledged Taxes Account pursuant to Section 5.5(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.

The amount of moneys required to be deposited into the Principal Sub-Account for the Series 2010C Bonds in a particular year pursuant to the Series 2010C Indenture as adjusted pursuant to the Series 2010C Indenture and described above, shall be reduced by any Annual Sinking Fund Credit for that year.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall 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 shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall 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 shall be made by the Trustee as often as may be necessary or requested by the Board to determine the amounts held therein. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein shall be valued as provided in the following paragraph.

The value of Investment Securities shall mean the fair market value thereof, *provided, however*, that all SLGs shall be valued at par and those obligations which are redeemable at the option of the holder shall 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 shall sell at the best price obtainable, or present for redemption, any Investment Securities held in

any Fund, Account or Sub-Account held by the Trustee whenever it shall 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 (net of offsetting transactions) under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds. For purposes of the immediately preceding sentence, "offsetting transactions" shall include any transaction authorized by the Bond Authorization Act which is intended to hedge, modify or otherwise affect another outstanding transaction or its economic results. If so authorized, the offsetting transaction need not be based on the same index or rate option as the related Bonds or the transaction being offset and need not be with the same counterparty as the transaction being offset. 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

Indebtedness and Liens

The Board shall not hereafter 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, and shall not, except as expressly authorized in the Indenture, 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.

Covenants Regarding Pledged State Aid Revenues

Pursuant to Section 15(e) of the Act, the Board hereby covenants, 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, the 2010DFG Bonds, and the Prior 2009 Authorization Bonds and the provision of not less than an additional 0.10 times debt service on the Bonds, the 2010DFG Bonds, and the Prior 2009 Authorization 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 such 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.

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, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

Defaults and Remedies of Owners

Events of Default

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

1. If a default shall occur in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable;
2. If a default shall occur in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable;
3. If a default shall occur in the performance or observance by the Board of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, and such default shall continue 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 shall file 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 shall happen and shall not have been 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 shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Bonds on the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, 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, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforcing any of the rights on interests of the Owner of the Bonds under the Bonds on the Indenture.

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

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 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 shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine 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 shall 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, 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 shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall 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 shall 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 shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

No Owner of any Bond shall 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 shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall 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 shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have 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 shall 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 herein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall 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 shall be cumulative and shall 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

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein.

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of any of the Bonds when due. No such waiver shall 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 shall take effect upon the day specified in such notice but only if a successor shall have been appointed by the Board or the Owners as provided in the Indenture and accepted such appointment, in which event such resignation shall 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 shall not have been appointed and accepted such appointment within a period of 60 days following the giving of notice, then the Trustee shall be 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 shall 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 shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, the Board shall appoint a successor Trustee. The Board shall cause notice of any such appointment made by it to be mailed to all Owners of the Bonds.

If no appointment of a Trustee shall be made by the Board within 60 days following such resignation or renewal pursuant to the foregoing provisions as described in the foregoing paragraph, the Trustee or the Owner of any Bond Outstanding under the Indenture 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 Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank, 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 shall be 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 as shall not be inconsistent with the terms and provisions hereof 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 as authorized herein;
6. To cure any ambiguity, omission or defect in the Indenture;
7. To provide for the appointment of a successor securities depository;
8. To provide for the appointment of any successor Fiduciary; and
9. To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective Upon Consent of Owners

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

Amendments

General

Exclusive of Supplemental Indentures as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall 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 indenture or indentures supplemental hereto as shall

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 indenture supplemental hereto; *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 of, 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, (d) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken or (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee.

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 shall 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, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have 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) a notice shall have been delivered as described below. A certificate or certificates by the Trustee delivered to the Board that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall 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 hereafter in this Section referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the Indenture and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to the Board a written statement that the consents of the Owners of the required aggregate principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in this Section, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the Board proof of the

mailing of such notice. A record, consisting of the information required or permitted by this Section to be delivered by or to the Trustee, shall be proof of the matters therein stated.

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 shall 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 shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

Defeasance

If the Board shall pay or cause to be paid or there shall otherwise be 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 shall 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 or pro-rata 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 shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid as described in the preceding paragraph if the Board shall have 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 shall be sufficient, or Defeasance Obligations 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, 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, the Bonds at or prior to their maturity in the manner provided in the preceding paragraph; and (iii) such other documents and showings as the Trustee may reasonably require.

SERIES 2010D INDENTURE

Definitions of Certain Terms

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

“*Additional Bonds*” means any Alternate Bonds issued in the future in accordance with the provisions of the Act: on a parity with and sharing ratably and equally in all or any portion of the Pledged State Aid Revenues with the Bonds, the Prior 2009 Authorization Bonds and the Series 2010CFG Bonds, as authorized by Section 7.4(B) of the Indenture.

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

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

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

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

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

“*Bond Payment Account*” means the Bond Payment Account established in Section 5.5 of the Indenture.

“*Bond Resolution*” means Resolution No. 10-0428-RS1, adopted by the Board on April 28, 2010, authorizing the issuance of the Bonds, as amended by Resolution No. 10-0922-RS1 adopted by the Board on September 22, 2010.

“*Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds—Direct Payment), of the Board.

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

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

“*Code*” means the Internal Revenue Code of 1986, as amended.

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

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

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

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

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

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

“*Debt Service Fund*” means the Debt Service Fund established in Section 5.5 of the Indenture.

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

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

“*Deposit Date*” means February 15 of each year or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes described in Sections 5.6(A) and 7.6(B) of the Indenture.

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

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

“*DTC Participant*” means any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing Bonds with DTC pursuant to the book-entry only system described in Section 2.2(H) of the Indenture.

“*Event of Default*” means any event so designated and specified in Section 8.1 of the Indenture.

“*Federal Subsidy Revenues*” means those payments to be received by the Board from the United States Department of the Treasury, pursuant to Section 6431 of the Code (and implementing regulations or other regulatory guidance promulgated by the Internal Revenue Service), in respect of the issuance by the Board of the Bonds as “Taxable Build America Bonds—Direct Payment.”

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

“*Forward Supply Contract*” means any contract entered into between the Board and a supplier of Investment Securities selected by or pursuant to the direction of the Board (a “*Counterparty*”) pursuant to which the Counterparty agrees to sell to the Board (or to the Trustee on behalf of the Board) and the Board (or the Trustee on behalf of the Board) agrees to purchase specified Investment Securities on

specific dates at specific purchase prices, all as established at the time of the execution and delivery of such contract and as set forth in such contract. Any amounts, due and owing from the Board to the Counterparty pursuant to any Forward Supply Contract (other than the specified purchase prices of the Investment Securities set forth therein) shall be treated as current operating expenses of the Board subject to annual appropriation, and shall not constitute indebtedness of the Board.

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

“*Indenture*” means the Trust Indenture, dated as of October 1, 2010, by and between the Board and the Trustee, as from time to time amended and supplemented, providing for the issuance of the Bonds.

“*Interest Sub-Account*” means the sub-account of that name in the Bond Payment Account established in Section 5.4 of the Indenture.

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

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

- (i) Government Obligations;
- (ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Services Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - U.S. Department of Housing & Urban Development (PHA’s)
 - Federal Housing Administration;
- (iii) Senior debt obligations which at the time of purchase are rated “AAA” by Standard & Poor’s Ratings Services (“S&P”) and “Aaa” by Moody’s Investors Service, Inc. (“*Moody’s*”) issued by Fannie Mae or the Federal Home Loan Mortgage Corporation of senior debt obligations of other government agencies;
- (iv) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates

of deposit on the date of purchase of no less than “A-1” or “A-1-1-” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (Ratings on holding companies are not considered as the rating of the bank);

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

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

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

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract.

“*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 Article II, Section 4.7 or Section 11.6 of the Indenture; and

(iv) Bonds deemed to have been paid as provided in Section 12.1(B) of the Indenture.

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

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

“*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 \$300,000,000 available under the 2009 Authorization in amounts each year, as shall provide for (i) the payment of the Bonds, the Prior 2009 Authorization Bonds, the Series 2010CFG bonds, and the provision of not less than an additional 0.10 times such amounts in such years and pledged under the Indenture as security for the Bonds and (ii) the payment of any applicable percentage of Swap Payments.

“*Pledged State Aid Revenues Account*” means the account of that name in the Pledged Revenues Account established in Section 5.5 of 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 Section 5.5 of the Indenture.

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

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

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

“*Principal Sub-Account*” means the sub-account of that name in the Bond Payment Account established in Section 5.5 of the Indenture.

“*Prior 2009 Authorization Bonds*” means together, the Series 2010A Bonds and the Series 2010B Bonds.

“*Project*” means the construction, acquisition and equipping of school and administrative buildings, site improvements and other real and personal property in and for the School District, all in accordance with the estimate of cost, including the Board’s Capital Improvement Program, as heretofore approved and from time to time amended by the Board.

“*Project Costs*” means the cost of acquisition, construction and equipping of the Project, including the cost of acquisition of all land, rights of way, property, rights, easements and interests,

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

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

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

“*Redemption Price*” means, with respect to any Bond, the amount 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.

“*Series 2010A Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A, of the Board.

“*Series 2010B Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B, of the Board.

“*Series 2010C Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds—Direct Payment).

“*Series 2010C Indenture*” means that certain Trust Indenture dated as of October 1, 2010, by and between the Board and The Bank of New York Mellon Trust Company, N.A., as from time to time amended and supplemented in relation to the Series 2010C Bonds.

“*Series 2010D Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds—Direct Payment), of the Board.

“*Series 2010D Bonds Interest Deposit Sub-Account*” means the sub account of that name in the Interest Deposit Sub-Account established in Section 5.5 of the Indenture.

“*Series 2010D Bonds Pledged Taxes Sub-Account*” means the sub-account of that name in Pledged Taxes Account established in Section 5.5 of the Indenture.

“*Series 2010D Bonds Project Fund*” means the Series 2010D Bonds Project Fund established in Section 5.2 of the Indenture.

“*Series 2010F Bonds*” means Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F.

“*Series 2010FG Indenture*” means that certain Trust Indenture dated as of October 1, 2010, by and between the Board and Amalgamated Bank of Chicago, as from time to time amended and supplemented in relation to the Series 2010F Bonds and the Series 2010G Bonds.

“*Series 2010G Bonds*” means Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G.

“*Series 2010CFG Bonds*” means collectively, the Series 2010C Bonds, the Series 2010F Bonds and the Series 2010G Bonds.

“*Series 2010CFG Indentures*” means collectively, the Series 2010C Indenture and the Series 2010FG Indenture.

“*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 those State aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future.

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

“*Swap Agreement*” means any agreement between the Board and a counterparty or Swap Provider, 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 net 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, expensed and default interest payments.

“*Swap Payment Account*” means the Account of that name in the Debt Service Fund established in Section 5.5 of the Indenture.

“*Swap Payment Date*” has the meaning set forth in Section 5.5(D) of the Indenture.

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

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

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, and any successor or successors appointed under the Indenture as provided in the Indenture. 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.

“*2009 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 09-0722-RS11 on July 22, 2009, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$2,300,000,000.

“*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, according to the import thereof, and the performance and observance of each and every covenant and condition herein and in the Bonds contained, and for and in consideration of the premises and of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the respective Owners (as hereinafter defined) thereof, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds shall be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become Owners thereof, the Board does hereby pledge and grant a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners, to the extent provided in the Indenture:

(a) The Pledged State Aid Revenues and the Pledged Taxes; provided that the pledge of the Pledged State Aid Revenues to the payment of the Bonds is on a parity with the pledge of such revenues to the payment of the Prior 2009 Authorization Bonds and the Series 2010CFG Bonds; each Series thereof constituting a series of Alternate Bonds of the Board issued pursuant to the 2009 Authorization;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture except the Swap Payment Account; 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 under the Indenture without any physical delivery or further act, and the lien and pledge under 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 shall have been extended for collection, in which case the Outstanding Bonds shall 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 shall 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, and shall not, except as expressly authorized in the Indenture, 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. The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged State Aid Revenues available under the 2009 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, the Prior 2009 Authorization Bonds and the Series 2010CFG Bonds; *provided, however*, that no Additional Bonds shall be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Pledged State Aid Revenues available under the 2009 Authorization subordinate to the Bonds. Such subordinate obligations will be paid from State Aid Revenues available under the 2009 Authorization that are available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Account under the Indenture during such year.

Provisions Regarding Build America Bond Designation of the Series 2010D Bonds

Pursuant to Section 54AA(d)(1)(C) of the Code and the Bond Resolution, the Board has irrevocably authorized the Board to have Section 54AA of the Code apply to the Series 2010D Bonds. Pursuant to Section 54AA(g)(2)(B) of the Code, the Board irrevocably elected to have subsection (g) of said Section 54AA apply to the Series 2010D Bonds. Pursuant to the foregoing elections, the Series 2010D Bonds will be issued as “build America bonds” as defined in Section 54AA(d)(1) of the Code and as “qualified bonds” as defined in Section 54AA(g)(2) of the Code. Any bond subsidy payment received by the Board as a result of the foregoing elections is not pledged as security for the payment of the principal of and interest on the Bonds and the Board is not obligated to maintain the status of the Series 2010D Bonds as “build America bonds” or as “qualified bonds” as defined in the Code.

Provisions Regarding Payment of Bonds

The principal and Redemption Price of the Bonds shall be payable at the designated corporate trust offices of the Trustee, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed pursuant to the Indenture for the Bonds. Interest on the Bonds shall be 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 no later than the Record Date. The Bonds shall be payable, with respect to interest, principal and 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 shall be transferable only upon the registration books of the Board, which shall be kept for that 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 shall 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 of the Bond or its duly authorized attorney, may, at the option of the Owner and upon payment of any taxes, fees or charges as provided in the Indenture, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same maturity and tenor of any other Authorized Denominations.

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 shall not be required to make any registration, transfer or exchange of any Bond 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 the Costs of Issuance Account

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

Moneys in the Cost of Issuance Account will be invested as described below under “**Investment of Funds**”.

Establishment and Application of the Project Fund

The Series 2010D Project Fund is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Moneys on deposit in the Project Fund will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of Project Costs upon receipt by the Trustee of a certificate of an Authorized Officer of the Board (upon which the Trustee may rely without further investigation) describing the Project Costs to be paid or reimbursed with such moneys.

Moneys in the Series 2010D Project Fund will be invested as described below under “**Investment of Funds**”.

Establishment and Application of Debt Service Fund and Accounts

The Debt Service Fund and the following Accounts within the Debt Service Fund are hereby established with the Trustee to be held and applied in accordance with the provisions of the Indenture: (a) the Pledged State Aid Revenues Account, consisting of (1) the Interest Deposit Sub-Account and (2) the Pledged State Aid Revenues Sub-Account; (b) Pledged Taxes Account; (c) Bond Payment Account, consisting of (1) the Interest Sub-Account and (2) the Principal Sub-Account; and (d) 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 and the Costs of Issuance Account (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.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the provisions of the Indenture shall 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 shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall 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 shall be made by the Trustee as often as may be necessary or requested by the Board to determine the amounts held therein. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein shall be valued as provided in the following paragraph.

The value of Investment Securities shall mean the fair market value thereof, *provided, however*, that all SLGs shall be valued at par and those obligations which are redeemable at the option of the holder shall 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 shall sell at the best price obtainable, or present for redemption, any Investment Securities held in any Fund, Account or Sub-Account held by the Trustee whenever it shall 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 (net of offsetting transactions) under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds. For purposes of the immediately preceding sentence, “offsetting transactions” shall include any transaction authorized by the Bond Authorization Act which is intended to hedge, modify or otherwise affect another outstanding transaction or its economic results. If so authorized, the offsetting transaction need not be based on the same index or rate option as the related Bonds or the transaction being offset and need not be with the same counterparty as the transaction being offset. 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

Indebtedness and Liens

The Board shall not hereafter 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, and shall not, except as expressly authorized in the Indenture, 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.

Covenants Regarding Pledged State Aid Revenues

Pursuant to Section 15(e) of the Act, the Board hereby covenants, 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, the Series 2010CFG Bonds, and the Prior 2009 Authorization Bonds and the provision of not less than an additional 0.10 times debt service on the Bonds, the Series 2010CFG Bonds, and the Prior 2009 Authorization 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 such 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.

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, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

Defaults and Remedies of Owners

Events of Default

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

(1) If a default shall occur in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable;

(2) If a default shall occur in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable whether at maturity or by call for redemption or otherwise;

(3) If a default shall occur in the performance or observance by the Board of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, and such default shall continue 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 shall file 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 shall happen and shall not have been 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 shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Bonds on the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, 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, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforcing any of the rights on interests of the Owner of the Bonds under the Bonds on the Indenture.

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

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 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 shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine 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 shall 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, 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 shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall 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 shall 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 shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

No Owner of any Bond shall 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 shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall 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 shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have 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 shall 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 herein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall 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 shall be cumulative and shall 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

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein.

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of any of the Bonds when due. No such waiver shall 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 shall take effect upon the day specified in such notice but only if a successor shall have been appointed by the Board or the Owners as provided in the Indenture and accepted such appointment, in which event such resignation shall 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 shall not have been appointed and accepted such appointment within a period of 60 days following the giving of notice, then the Trustee shall be 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 shall 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 shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, the Board shall appoint a successor Trustee. The Board shall cause notice of any such appointment made by it to be mailed to all Owners of the Bonds.

If no appointment of a Trustee shall be made by the Board within 60 days following such resignation or renewal pursuant to the foregoing provisions as described in the foregoing paragraph, the Trustee or the Owner of any Bond Outstanding under the Indenture 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 Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank, 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 shall be 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 as shall not be inconsistent with the terms and provisions hereof 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 as authorized herein;
6. To cure any ambiguity, omission or defect in the Indenture;
7. To provide for the appointment of a successor securities depository;
8. To provide for the appointment of any successor Fiduciary; and
9. To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective Upon Consent of Owners

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

Amendments

General.

Exclusive of Supplemental Indentures as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall 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 indenture or indentures supplemental hereto as shall 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 indenture supplemental hereto; *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 of, 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, (d) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken or (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee.

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 shall 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, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have 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) a notice shall have been delivered as described below. A certificate or certificates by the Trustee delivered to the Board that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall 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 hereafter in this Section referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the Indenture and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents

on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to the Board a written statement that the consents of the Owners of the required aggregate principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in this Section, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the Board proof of the mailing of such notice. A record, consisting of the information required or permitted by this Section to be delivered by or to the Trustee, shall be proof of the matters therein stated.

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 shall 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 shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

Defeasance

If the Board shall pay or cause to be paid or there shall otherwise be 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 shall 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 or pro-rata 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 shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid as described in the preceding paragraph if the Board shall have 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 shall be sufficient, or Defeasance Obligations 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, 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, the Bonds at or prior to their maturity in the manner provided in the preceding paragraph and (iii) such other documents and showings as the Trustee may reasonably require.

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APPENDIX C-1

Series 2010C Bonds

Form of Opinion of Co-Bond Counsel

November 2, 2010

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 \$257,125,000 principal amount of Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds – Direct Payment) (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. 09-0722-RS11, adopted by the Board on July 22, 2009 (the “2009 Authorizing Resolution”), Resolution No. 10-0428-RS1, adopted by the Board on April 28, 2010 (the “Original Bond Resolution”), as amended by Resolution No. 10-0922-RS1 adopted by the Board on September 22, 2010 (the “Amending Bond Resolution” and, together with the Original Bond Resolution, the “Bond Resolution”), and a Trust Indenture dated as of October 1, 2010 (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 \$5,000 and any integral multiple thereof. The Bonds are dated November 2, 2010, mature on November 1, 2029 and bear interest from their date at the rate of six and three hundred nineteen thousandths per centum (6.319%) per annum, payable on May 1, 2011 and semi-annually thereafter on each May 1 and November 1.

The Bonds are subject to extraordinary mandatory redemption, as a whole, or in part and if in part, pro-rata, at the redemption price for each Bond to be redeemed equal to the principal amount of the Bond to be redeemed, on November 2, 2013 and on any date thereafter, in accordance with the requirements of Section 54A(d)(2)(B) of the Internal Revenue Code of 1986 (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 subject to redemption prior to maturity at the option of the Board, as a whole or in part, and if in part, pro-rata, in such principal amounts as the Board shall determine, at the “Make-Whole Redemption Price,” which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined in the Indenture) plus 35 basis points; plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

The Bonds are subject to extraordinary redemption at the option of the Board, in whole or in part, and if in part, pro-rata, in such principal amounts as the Board shall determine, on any date on or after the date that (i) a change has occurred to Section 54A, Section 54F or Section 6431 of the Code, or to any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, pursuant to which the Board's cash subsidy payment from the United States Treasury with respect to interest paid on the Bonds is reduced or eliminated or (ii) the United States Treasury fails to make such a cash subsidy payment to which the Board is entitled and such failure is not caused by any action by or failure to act by the Board or any agent of the Board; at the "Make-Whole Redemption Price," which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined in the Indenture) plus 100 basis points; plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

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 2009 Authorizing Resolution and the Bond Resolution, to enter into the Indenture and to authorize the Bonds. The 2009 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 respective 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 2009 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 2009 Authorizing Resolution, the Bond Resolution and the Indenture and are enforceable in accordance with their terms.

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

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged State Aid Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged State Aid Revenues consist of the State Aid Revenues received by the Board in any year pursuant to Article 18 of the School Code not in excess of the amount available under the 2009 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 2009 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.

Interest on the Bonds is includable in gross income for Federal income tax purposes. Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the 2009 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,

LG/MMB/gw/bae

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APPENDIX C-2

Series 2010D Bonds

Form of Opinion of Co-Bond Counsel

November 2, 2010

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 \$125,000,000 principal amount of Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds – Direct Payment) (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. 09-0722-RS11, adopted by the Board on July 22, 2009 (the “2009 Authorizing Resolution”), Resolution No. 10-0428-RS1, adopted by the Board on April 28, 2010 (the “Original Bond Resolution”), as amended by Resolution No. 10-0922-RS1 adopted by the Board on September 22, 2010 (the “Amending Bond Resolution” and, together with the Original Bond Resolution, the “Bond Resolution”), and a Trust Indenture dated as of October 1, 2010 (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 \$5,000 and any integral multiple thereof. The Bonds are dated November 2, 2010, mature on December 1, 2040, and bear interest from their date at the rate of six and five hundred and nineteen thousandths per centum (6.519%) per annum, payable on June 1, 2011 and semiannually thereafter on June 1 and December 1 of each year.

The Bonds are subject to mandatory redemption, in part and pro-rata, on December 1 of the years and in the respective principal amounts set forth in the following table, by the application of sinking fund installments and at a redemption price of par:

<u>Year</u>	<u>Principal Amount</u>
2037	\$18,490,000
2038	20,025,000
2039	21,665,000

The Bonds are subject to redemption prior to maturity at the option of the Board, as a whole or in part, and if in part, pro-rata, in such principal amounts as the Board shall determine, at the “Make-Whole Redemption Price,” which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest

accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined in the Indenture) plus 35 basis points; plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

The Bonds are subject to redemption prior to their maturity at the option of the Board, in whole or in part, and if in part, pro-rata, in such principal amounts as the Board shall determine, at the “Extraordinary Optional Redemption Price”, which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined in the Indenture) plus 100 basis points; plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date, upon the occurrence of an Extraordinary Event. An “Extraordinary Event” is a change that has occurred to Section 54AA or 6431 of the Code (as such sections were added by Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, pertaining to Build America Bonds), or to any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such section or any other determination by the Internal Revenue Service or the United States Department of the Treasury, pursuant to which the Federal Subsidy Revenues (as defined in the Indenture) are reduced or eliminated, and which is not the result of any act or omission by the Board to satisfy the requirements to qualify to receive the Federal Subsidy Revenues.

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 2009 Authorizing Resolution and the Bond Resolution, to enter into the Indenture and to authorize the Bonds. The 2009 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 respective 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 2009 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 2009 Authorizing Resolution, the Bond Resolution and the Indenture and are enforceable in accordance with their terms.

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

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged State Aid Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged State Aid Revenues consist of the State Aid Revenues received by the Board in any year pursuant

to Article 18 of the School Code not in excess of the amount available under the 2009 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 2009 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.

Interest on the Bonds is includable in gross income for Federal income tax purposes. Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the 2009 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,

LG/MMB/gw/bae

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