DAC Bond

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

In the opinion of Quarles and Brady LLP, Chicago, Illinois, and McGaugh Law Group LLC, Chicago, Illinois, Co-Bond Counsel, assuming continuing compliance with the requirements of the Internal Revenue Code of 1986, as amended, under existing law interest on the Bonds is excludable from gross income and is not an item of tax preference for federal income tax purposes. See "TAX EXEMPTION" herein for a more detailed discussion of some of the federal income tax consequences of owning the Bonds. The interest on the Bonds is not exempt from present State of Illinois income taxes.

$402,410,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A

Dated: Date of Issuance **Due: See inside front cover**

The Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A (the "**Series 2011A Bonds or the "Bonds**"), will be issued by the Board of Education of the City of Chicago (the "**Board**") as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A. , as trustee, registrar and paying agent for the Bonds, to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursal to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See "**THE BONDS—Book-Entry Only System**" herein.

The proceeds 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 "**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 from Pledged State Aid Revenues and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from ad valorem taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from all Funds, Accounts and Sub-Accounts (each as defined in **Appendix C** hereto) pledged as security for the Bonds pursuant to the Trust Indenture dated as of October 1, 2011, between the Board and by The Bank of New York Mellon Trust Company, N.A. , as trustee (the "**Indenture**"). See "**SECURITY FOR THE BONDS.**"

Interest on the Bonds will be payable on each June 1 and December 1, commencing June 1, 2012. The maturities, amounts, interest rates, prices or yields, and CUSIP numbers of the Bonds are set forth on the inside cover.

The Series 2011A Bonds are subject to redemption prior to maturity as described herein.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinion of Quarles and Brady LLP, Chicago, Illinois, and McGaugh Law Group LLC, 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 Charity and Associates, P.C., Chicago, Illinois, and for the Underwriters by their co-counsel, Thompson Coburn LLP, Chicago, Illinois and Gonzalez, Saggio and Harlan, L.L.C., 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 1, 2011.

JEFFERIES & COMPANY

RICE FINANCIAL PRODUCTS COMPANY

DUNCAN-WILLIAMS, INC. **MESIROW FINANCIAL, INC.** **RAMIREZ & CO., INC.** **BAIRD**

Dated: October 13, 2011

BOARD OF EDUCATION OF THE CITY OF CHICAGO

$402,410,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues) Series 2011A

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

Serial Bonds

Maturity December 1	Amount	Interest Rate	Yield	Price	CUSIP* 167505
2041	$50,000,000	5.250%	5.230%	100.150%	PB6

Term Bonds

Maturity December 1	Amount	Interest Rate	Yield	Price	CUSIP* 167505
2039	$176,775,000	5.500%	5.050%	103.516%	PC4
2041	175,635,000	5.000%	5.190%	97.118%	PA8

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, its 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.

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BOARD OF EDUCATION OF
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$402,410,000
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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 $402,410,000 of its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A (the "**Series 2011A Bonds**" or the "**Bonds**").

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

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

The Bonds will be issued under a Trust Indenture dated as of October 1, 2011 (the "**Indenture**"), by and between the Board and The Bank of New York Mellon Trust Company, N.A. , Chicago, Illinois, as trustee, registrar and paying agent (the "**Trustee**" or "**Paying Agent**"). The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit.

Authorization for the Bonds

The Local Government Debt Reform Act of the State of Illinois, as amended (the "**Debt Reform Act**"), authorizes the Board to issue alternate revenue bonds ("**Alternate Bonds**") which are general obligation bonds, backed by the full faith and credit of the Board, and which are payable from any revenue source available to the Board (the "**Alternate Revenues**"). To the extent Alternate Bonds are payable from Alternate Revenues consisting of State or federal funds that the Board has received during each of the 3 fiscal years preceding the issuance of such bonds, the Board must determine that the Alternate Revenues are sufficient in each year to pay debt service on all outstanding bonds payable from such Alternate Revenues and provide an additional 10% coverage.

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 September 28, 2011, the Board adopted Resolution 11-0928-RS7 authorizing the issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues), in an aggregate principal amount not to exceed $500,000,000 (the "**Bond Resolution**" and, together with the 2009 Authorization, the "**Resolutions**") which authorized the issuance of the Bonds.

Security for the Bonds

The Bonds will be secured by and are payable (i) from the Pledged State Aid Revenues (as defined herein), (ii) to the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "**Pledged Taxes**") and (iii) from all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture.

The Pledged State Aid Revenues available for bonds issued under the 2009 Authorization are that amount of the 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 in any year. For additional information, see "**SECURITY FOR THE BONDS – General**" and "**— General State Aid**" and see **APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.**" For a discussion of other obligations of the Board payable from Pledged State Aid Revenues available for bonds issued under the 2009 Authorization, see "**Prior 2009 Authorization Bonds and Additional Bonds**" below.

Prior 2009 Authorization Bonds and Additional Bonds

Alternate Bonds payable from the Pledged State Aid Revenues available under the 2009 Authorization are currently outstanding. See "**SECURITY FOR THE BONDS – Additional Bonds Payable From Pledged State Aid Revenues.**" The Board's (i) Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A in the original aggregate principal amount of $48,910,000, (ii) Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B in the original aggregate principal amount of $157,055,000, (iii) Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds – Direct Payment) in the original aggregate principal amount of $257,125,000, (iv) Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds – Direct Payment) in the original aggregate principal amount of $125,000,000, (v) Tax-Exempt Unlimited Tax General Obligation Refunding Bonds, (Dedicated Revenues), Series 2010F in the original aggregate principal amount of $183,750,000, and (vi) Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G in the original aggregate principal amount of $72,915,000 (collectively, the "**Prior 2009 Authorization Bonds**") are the only Alternate Bonds currently outstanding under the 2009 Authorization. After issuance of the Bonds, the Board may issue $1,052,835,000 aggregate principal amount of additional Alternate Bonds ("**Additional Bonds**") under the 2009 Authorization. All of the Prior 2009 Authorization Bonds and any Additional Bonds are Alternate Bonds payable from the Pledged State Aid Revenues available under the 2009 Authorization.

Other Alternate Bonds

In addition to the Prior 2009 Authorization Bonds, the Board has issued and currently has outstanding $4.4 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

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

The Bonds 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 shall be payable on June 1 and December 1 of each year, commencing June 1, 2012, computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds shall mature on December 1 of each of the years and in the principal amounts and shall bear interest at the respective rates shown on the inside cover page hereof. The Bonds shall be issued in Authorized Denominations as defined in the Indenture (but no single Bond shall represent principal maturing on more than one date). Interest on each Bond will be payable on each Interest Payment Date to the person in whose name the Bond is registered at the close of business on the fifteenth day of the calendar month next preceding each Interest Payment Date. **See APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

Redemption

Mandatory Sinking Fund Redemption. The Series 2011A Bonds maturing on December 1, 2039 and 2041 (as shown below, the "**Term Bonds**"), are subject to mandatory redemption prior to maturity, in part, at a redemption price equal to the principal amount thereof, plus accrued interest, in the aggregate principal amounts set forth in the following table:

Term Bonds maturing on December 1, 2039

Redemption Dates December 1	Principal Amount
2035	$12,440,000
2036	27,065,000
2037	51,995,000
2038	55,275,000
2039*	30,000,000

*Final Maturity

Term Bonds maturing on December 1, 2041

Redemption Dates December 1	Principal Amount
2039	$28,770,000
2040	62,355,000
2041*	84,510,000

*Final Maturity

At its option, to be exercised on or before the 60th day next preceding any mandatory sinking fund redemption date for the Bonds of the specified maturities for which sinking fund installments have been established, the Board may (i) deliver to the Trustee for cancellation Bonds or portions thereof in Authorized Denominations of such maturity subject to mandatory sinking fund redemption or (ii) receive a credit in respect of its mandatory sinking fund redemption obligation for such maturity of Bonds or portions thereof in Authorized Denominations, of said maturity, which prior to said date have been redeemed (otherwise than through the operation of such mandatory sinking fund redemption) and canceled by the Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such 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 Bonds of such maturity 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.

Optional Redemption. The Bonds are subject to prior redemption at the option of the Board, in whole or in part, by lot, in such principal amounts and from such maturities as the Board shall determine, in integral multiples of $5,000 on any date on or after December 1, 2021, at the redemption price of 100% plus accrued interest thereon to the date fixed for redemption.

Redemption Procedures. In the case of any redemption of Bonds 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 each maturity 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 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 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 Indenture.

Whenever the Trustee is required to redeem the Bonds pursuant to the mandatory sinking fund provisions of the Indenture, the Trustee shall select the Bonds 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, in accordance with the terms of the Indenture, without further direction from the Board.

Whenever Bonds are redeemed, whether pursuant to mandatory sinking fund redemption or optional redemption, 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 pursuant to the Indenture or when the Trustee shall be required to redeem Bonds pursuant to the Indenture, the Trustee shall give notice, in the name of the Board, of the redemption of such Bonds, which notice shall specify the maturities 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 maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice 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 Bond to be redeemed, or the redemption price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date, interest thereon 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 to be redeemed at their addresses as shown on the registration books of the Board maintained by the Registrar; *provided*, that if all Bonds are held in book-entry only form, such notice may be given pursuant to the then-existing agreement with the securities depository for the Bonds. The failure of the Trustee to give notice to a registered owner of any Bond or any defect in such notice shall not affect the validity the redemption of any other Bonds as to which proper notice was given.

Bond Registration and Transfers

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

Book-Entry Only System

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the **"Exchange Act"**). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (**"Direct Participants"**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**"DTCC"**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**"Indirect Participants"**). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission (the **"SEC"**). More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or its Agent, on the payable date in accordance with their respective holdings shown on DTC's records. 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 Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Defeasance

Bonds for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of the Indenture and the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board thereunder shall be discharged and satisfied. As a condition to such defeasance of the Bonds, 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.

PLAN OF FINANCE

Overview

The Bonds will be used to provide funds for the continued implementation of the Board's Capital Improvement Program (as described herein). The Capital Improvement Program includes projects to improve and maintain the Board's schools and school sites including building renovation, facility additions and site improvements, and building interiors. See "**BOARD OF EDUCATION OF THE CITY OF CHICAGO — Capital Improvement Program.**"

Future Financings

The Board may issue additional bonds, from time to time, to continue implementation and funding of the Capital Improvement Program. 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.

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

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Sources and Uses of Funds

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

Sources:	
Principal amount of the Bonds	$ 402,410,000.00
Net original issue premium/discount	1,228,608.30
Total Sources of Funds	$ 403,638,608.30
Uses:	
Deposit to the Project Fund	$ 400,395,463.48
Estimated costs of issuance[1]	3,243,144.82
Total Uses of Funds	$ 403,638,608.30

[1] Includes estimated costs of issuance, which will be deposited in the Project Fund, and the Underwriters' discount.

SECURITY FOR THE BONDS

General

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

The Bonds will be payable from and secured by a pledge of (i) 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, (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "**Pledged Taxes**"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. "**Pledged State Aid Revenues**" are the amount of State Aid Revenues sufficient to provide for the payment of annual debt service on the Prior 2009 Authorization Bonds and to provide for the payment of annual debt service on the Bonds and any Additional Bonds. In addition, Pledged State Aid Revenues include such additional amounts of State Aid Revenues sufficient to provide an additional 10% coverage on debt service provided from State Aid Revenues. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged State Aid Revenues are not available in sufficient amounts to pay the debt service on the Bonds. See **APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

General State Aid

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

GSA consists of a regular foundation formula claim and a poverty grant ("**Supplemental General State Aid**"). 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 taxes within the school district. For fiscal year 2012, the foundation level is set at $6,119. However, the General Assembly did not appropriate sufficient funds to fully cover the General State Aid payment and therefore, each school district will only receive 95% of the General State Aid claim. The fiscal year 2012 budget adopted by the Board and discussed below assumes only 95% will be received.

The poverty grant provides additional resources for school districts that have a high concentration of low-income pupils. The poverty count is the average of the children eligible for Medicaid, Kidcare, Food Stamps and TANF for the three previous years. In fiscal year 2012, the Board will receive $704.1 million from the poverty grant. Of this amount, $261 million must be appropriated directly to schools within the district based on the number of low income students.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 2002 through 2012, 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 2002 – 2011
(Dollars in Millions)

Fiscal Year	**Total GSA Claim**(1)	**Supplemental General State Aid Allocation**	**Unrestricted GSA General Fund Deposit**(2)
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	1,147.1	261.0	886.1
2012(3)	1,120.2	261.0	859.2

(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.
(3) 2012 reflects budgeted amount; "Total GSA Claim" of $1,120.2 million reflects 5% reduction, discussed above.

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**").

In the past three fiscal years, the Board has experienced delays in the receipt of certain non-GSA payments due from the State. As of August 31, 2011, the non-GSA payments from the State to the Board were delinquent by approximately $180 million. However, payments of GSA from the State have consistently been received by the Board on time. For a discussion of the impact of these delays on the Board's 2011 operations and 2012 budget, see "**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Overview of Board's Fiscal Year 2012 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 if Pledged State Aid Revenues are insufficient. The Pledged Taxes are *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount. However, based on projected receipts of Pledged State Aid Revenues, the Board anticipates that all Pledged Taxes will be abated on a year-by-year basis prior to such taxes being extended. To the extent that the Pledged State Aid Revenues are not available in sufficient amounts, the debt service on the Bonds is payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection, in any year, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage attributable to the levy of the Pledged Taxes for the payment of the debt service on the Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the Indenture. The Board has covenanted in the Indenture to take all actions necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds. For additional information concerning the levy and collection of the Pledged Taxes, see "**THE REAL PROPERTY TAX SYSTEM – Real Property Assessment, Tax Levy and Collection Procedures.**"

Debt Service Fund and Accounts

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

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

Application of Pledged State Aid Revenues; Abatement of Pledged Taxes

On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes with respect to the Bonds as described below (each such date being referred to as a "**Deposit Date**"), the Board shall deposit to the credit of the Pledged State Aid Revenues Sub-Account such amounts derived from Pledged State Aid Revenues as shall be necessary and sufficient to cause the amount on deposit in said Sub-Account to equal the sum of the interest on and principal of the Bonds that will come due and payable during the then-current Bond Year (as defined in the Indenture). Once such deposit has been made, the Board shall take such actions as are necessary to abate in full the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date. The Board shall make the deposit required pursuant to this paragraph on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

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

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

There shall be transferred *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Interest Deposit Sub-Account, subject to the limitations described above on the application of moneys therein, 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 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 Bonds, if any, which mature on the next December 1 less the amount then on deposit in the Principal Sub-Account and available for such payment; and (iii) third, to the Principal Sub-Account on or prior to December 1 on which Term Bonds are subject to mandatory sinking fund redemption, the amount required for the payment of the redemption price of such Term Bonds then to be redeemed.

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 Indenture and the Trustee will provide notice to the Board that such amounts constitute State Aid Revenues. See **APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

All amounts on deposit in the Interest Deposit Sub-Account of the Pledged State Aid Revenues Account on December 1, 2012 shall be transferred to the Project Fund. All amounts so transferred to the Project Fund shall be used to pay Project Costs as provided in the Indenture. See **APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds. See **APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

Prior 2009 Authorization Bonds

Alternate Bonds payable from the State Aid Revenues available under the 2009 Authorization are currently outstanding and additional Alternate Bonds payable from the State Aid Revenues available under the 2009 Authorization may be issued in the future under other resolutions of the Board. See "**SECURITY FOR THE BONDS – General**" and "**– General State Aid.**" The Board's Prior 2009 Authorization Bonds are the only Alternate Bonds currently outstanding under the 2009 Authorization.

After issuance of the Bonds, $1,052,835,000 of the $2,300,000,000 aggregate principal amount of Alternate Bonds authorized under the 2009 Authorization will remain available for issuance by the Board as Additional Bonds payable from the Pledged State Aid Revenues. For additional information, see "**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.**"

Additional Bonds Payable From Pledged State Aid Revenues

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged State Aid Revenues or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds payable from Pledged State Aid Revenues shall share ratably and equally in the Pledged State Aid Revenues with the Bonds and the Prior 2009 Authorization Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. The Board reserves the right to issue bonds or other evidences of indebtedness which are subordinate to the Bonds and are payable from the Pledged State Aid Revenues available under the 2009 Authorization. For additional information see "**INTRODUCTION – Authorization for the Bonds.**"

Other Additional Indebtedness

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

Bonds Are Obligations of the Board

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

In 1995, 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**"). The Reform Board of Trustees served as the governing board of the School District until June 30, 1999. On July 1, 1999, the Reform Board of Trustees became the Board.

The seven member Chicago Board of Education currently serves as the governing body of the School District. The members serve four-year terms and are appointed by the Mayor of the City of Chicago (the "**Mayor**"). The appointments do not require approval of the City Council.

Mayor Rahm Emanuel took office on May 16, 2011 and subsequently appointed an entirely new Chicago Board of Education to govern the School District.

Under the School Code, the Chicago Board of Education 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 Chicago Board of Education are as follows:

David J. Vitale was elected the President of the Chicago Board of Education on June 15, 2011. Previously, Mr. Vitale served as the Chief Administrative Officer for the Chicago Public School system from 2003 - 2008. Mr. Vitale is the Chairman of Urban Partnership Bank, a newly formed bank serving the financially underserved neighborhoods of Chicago, Cleveland and Detroit. From February of 2001 through November of 2002, Mr. Vitale served as President and Chief Executive Officer of the Chicago Board of Trade ("**CBOT**"). In addition to serving as a member of the CBOT's Board of Directors and Executive Committee, Mr. Vitale also served as President and CEO of the MidAmerica Commodity Exchange, an affiliate of the CBOT. Mr. Vitale is a former Vice Chairman and Director of Bank One Corporation, where he was responsible for Bank One's Commercial Banking, Real Estate, Private Banking, Investment Management and Corporate Investments businesses. Mr. Vitale serves on the Boards of Directors of United Airlines, ISO New England (Chairman), Wheels Inc., DNP Select Income Fund (Chairman), Alion Science and Technology and Ariel Investments. He also serves on several civic and charitable boards including: The Visiting Committee of the Harvard Graduate School of Education; the Board of Trustees of the Museum of Science and Industry; The Art Institute of Chicago (Vice Chairman); the Board of Managers of the YMCA of Metropolitan Chicago (Former Chair); Member of the Advisory Council of the Graduate School of Business at the University of Chicago; Advisory Committee of the Kellogg School of Management; Northwestern University; Illinois Institute of Technology (Vice Chairman); Chairman of the Visiting Committee of The School for Social Service Administration at the University of Chicago; Leadership Greater Chicago (Former President); The Partnership for New Communities (Vice Chairman); and The Chicago Council on Foreign Relations. Mr. Vitale is a graduate of Harvard University and earned an MBA from the University of Chicago.

Jesse H. Ruiz was elected Vice President of the Chicago Board of Education on June 15, 2011. Mr. Ruiz previously served as Chairman of the Illinois State Board of Education. He is a corporate & securities partner at the law firm of Drinker Biddle & Reath LLP and concentrates his practice on mergers and acquisitions, corporate finance, and commercial transactions. Mr. Ruiz was recently appointed to the U.S. Department of Education Equity and Excellence Commission. In August 2010, Mr. Ruiz was appointed to the ABA Presidential Advisory Commission on Hispanic Legal Rights and Responsibilities by the President of the American Bar Association. He also serves on the Board of Directors of Commonwealth Edison Company, an Exelon company, and on several other civic and charitable boards and committees. Previously, Mr. Ruiz was a management consultant with the international consulting firm of Booz Allen & Hamilton (n/k/a Booz & Co.). Mr. Ruiz received his JD from The University of

Chicago Law School and his Bachelor's Degree in economics and business administration from the University of Illinois at Urbana-Champaign.

Henry S. Bienen served as the 15th president of Northwestern University and currently serves as President Emeritus of Northwestern University. He was the James S. McDonnell Distinguished University Professor and Dean of the Woodrow Wilson School of Public and International Affairs at Princeton University prior to his appointment at Northwestern. Mr. Bienen is one of the first three university presidents awarded the Carnegie Corporation Academic Leadership Award for innovative leadership in higher education. He is a member of the American Academy of Arts and Sciences, the Board of Directors of the Council on Foreign Relations, serving on the executive committee and chairing the nominating and governance committee, the Board of Directors of the Chicago Council on Global Affairs and serves on its executive committee and the Board of Directors of Rasmussen College serving as vice chair. He was formerly a member of the Argonne National Laboratory's Board of Governors, and served on the board's executive, nominating and auditing committees. Mr. Bienen received a Bachelor's Degree from Cornell University and a Master's Degree from the University of Chicago. He was awarded a PhD from the University of Chicago. Mr. Bienen was awarded an honorary Doctorate of Humane Letters from Northwestern University, received the University of Chicago Professional Achievement Alumni Award and the 2008 Niagara Peace & Dialogue Award from the Niagara Foundation in 2008.

Dr. Mahalia A. Hines is currently the Chief Executive Officer of Think COMMON Entertainment, President of the COMMON Ground Foundation and Hip Hop Schoolhouse Publishing Company. Dr. Hines has worked in the educational field for more than 35 years as a teacher and principal. During her 15 year stint as a principal she serviced grade levels from elementary through high school in the Chicagoland area. Dr. Hines also worked as a coach for first-year principals, a mentor for current principals and prospective principals in Chicago and continues to work with school leaders of public and charter schools in urban areas throughout the country. In addition to working with schools and school leaders, she travels the country speaking to single mothers on raising successful sons. Dr. Hines received her doctorate from the University of Illinois, her Master's Degree from Northeastern University and Bachelor's Degree from Central State University.

Penny Pritzker is Chairman of the Advisory Board for Skills for America's Future, a national initiative that brings together businesses and community colleges to prepare workers for 21st century jobs. She's past Chair of the Chicago Public Education Fund, the first venture philanthropy to raise private equity to invest in public schools. Through The Pritzker Traubert Family Foundation, Ms. Pritzker helps fund innovative initiatives to improve public education and strengthen school leadership. She also serves on the Civic Committee of the Commercial Club of Chicago. Ms. Pritzker is an entrepreneur, civic leader and philanthropist. She serves as Chairman of the board of TransUnion, Chairman/CEO of Pritzker Realty Group, Chairman and co-founder of Vi (formerly Classic Residence by Hyatt), The Parking Spot and Artemis Real Estate Partners. She also serves on the Board of Hyatt Hotels. President Obama recently appointed Ms. Pritzker to the President's Council for Jobs and Competitiveness and has served on the President's Economic Recovery Advisory Board which evaluated economic policy. She was National Finance Chair of the Barack Obama for President campaign and co-chair of the 2009 Presidential Inaugural Committee. She serves as a Board Member of the Council on Foreign Relations, a Trustee of Stanford University, a Trustee of the John F. Kennedy Center for the Performing Arts, a Board Member of The Economic Club of Chicago, an advisory Board Member of Brookings Institution's Hamilton Project, a former Chairman of the Board of the Museum of Contemporary Art in Chicago and a former Member of the Harvard University Board of Overseers. Ms. Pritzker earned her Bachelor's Degree in Economics from Harvard University and J.D. and M.B.A. Degrees from Stanford University.

Rodrigo A. Sierra is the Founder and Principal of Sierra Strategies, a strategic leadership and positioning consultancy. Previously, Mr. Sierra was the Chief Marketing Officer of Johnson Publishing Company and spent eight years with Integrys Energy Group and its predecessor, Peoples Gas, where he served in a variety of roles including Vice President of Corporate Communications and Public Affairs.

From 2000 to 2002, Mr. Sierra served in the cabinet of Chicago Mayor Richard M. Daley as Deputy Mayoral Press secretary and was an integral member of the team that helped to win relocation of Boeing Corporation's global headquarters to Chicago. Mr. Sierra is a founder and steering committee member of Nuestro Futuro, a partnership with the Chicago Community Trust that encourages Latino philanthropy and increased grants to organizations that serve Latinos. He serves on the board of the Puerto Rican Arts Alliance and on the executive committee of the board of the Goodman Theater as well as co-chair of its education committee. He is a member of the Arthur Page Society, the Institute for Politics at Roosevelt University, the Economic Club of Chicago, The Executives' Club of Chicago, the Publicity Club of Chicago and the City Club of Chicago. Mr. Sierra earned an MBA from the Kellogg School of Management through the Executive Master of Business Administration program in June 2008. He holds a Bachelor's Degree in Philosophy from Northwestern University.

Andrea Zopp is President and CEO of the Chicago Urban League, an organization that supports and advocates for economic, educational and social progress for African Americans and other minorities through an agenda focused on economic empowerment. Before her appointment to the Chicago Urban League, Ms. Zopp was executive vice president and general counsel at the Exelon Corporation. Prior to joining Exelon, Ms. Zopp served in similar roles at Sears Holdings Corporation and Sara Lee Corporation, before then as a partner in the law firm of Sonnenschein Nath & Rosenthal. Ms. Zopp was also the first woman and African American to serve as First Assistant State's Attorney in the Cook County State's Attorney's office where she was responsible for the day-to-day operations of the nation's second largest prosecutor's office. Ms. Zopp has served as a member and President for many civic organizations and in 2004, she became chair of the Blue Ribbon Commission on Magnet and Selective Enrollment School Admissions for the Chicago Public Schools. Ms. Zopp received a Bachelor's Degree in history and science and a Juris Doctor Degree from Harvard University.

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

Member	**Term Expires**
David J. Vitale, President	July 1, 2014
Jesse H. Ruiz, Vice President	July 1, 2014
Henry S. Bienen	June 30, 2015
Dr. Mahalia A. Hines	July 1, 2014
Penny Pritzker.	June 30, 2015
Rodrigo A. Sierra	June 30, 2015
Andrea Zopp	June 30, 2015

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..................................	Jean-Claude Brizard
Chief Education Officer	Noemi Donoso
Chief Administrative Officer...........................	Timothy Cawley
Interim Chief Financial Officer.......................	Melanie A.J. Shaker
General Counsel	Patrick J. Rocks

Jean-Claude Brizard is the Chief Executive Officer of the Board. Mr. Brizard comes to the Board of Education with a distinguished career spanning 25 years in education and public service. In 2008, Mr. Brizard was appointed Superintendent of Schools for the Rochester City School District. Prior to his time in Rochester, Mr. Brizard worked for 21 years as a teacher, principal and administrator in the New York City school system. As a New York Regional Superintendent, Mr. Brizard supervised more than one hundred K-12 schools serving over 100,000 students. Mr. Brizard holds a Master's Degree in School Administration and Supervision from The City College of New York, a Master's Degree in Science Education from Queens College and a Bachelor's Degree in Chemistry from Queens College. He is also a graduate of the Superintendents' Academy of the Broad Center for the Management of School Systems, and an Executive Committee member of the American Association of School Administrators (AASA) and the Aspen Institute.

Noemi Donoso is the Chief Education Officer of the Board. Ms. Donoso served as Director of Denver Public Schools' Office of School Reform and Innovation. Previously, Dr. Donoso was Chief Academic Officer for the high-performing Camino Nuevo Charter Academy network. Dr. Donoso served as the turn-around principal of two K-8 charter schools in MacArthur Park, Los Angeles and East Harlem, New York. Prior to becoming a principal, Dr. Donoso taught high school English and Advanced Placement History for eight years at Foshay Learning South Los Angeles. Dr. Donoso holds a Ph.D. in Education Policy and Planning from the University of Southern California, a Master's Degree from Rutgers University and a Bachelor's Degree from Mount St. Mary's College.

Timothy Cawley is the Chief Administrative Officer of the Board. Mr. Cawley recently served as Managing Director for Finance and Administration at the Academy for Urban School Leadership ("**AUSL**"), which manages 19 schools within the School District. Mr. Cawley joined AUSL after a 30-year business career, holding senior management positions at Fortune 500 companies. Mr. Cawley has served as Senior Vice President of Global Logistics and Fulfillment for Motorola's Integrated Supply Chain, President of SBC/Ameritech International and Chief Executive Officer for Revell Monogram.

Melanie A.J. Shaker joined the Board and was appointed as Acting Treasurer in June 2010, and was recently appointed Interim Chief Financial Officer of the Board effective May 27, 2011. Prior to joining the Board, Ms. Shaker was a lead analyst for Fitch Ratings' Midwest Public Finance Group and provided credit ratings for many of the largest Midwest cities, counties, and school districts, including the credit rating of the Chicago Board of Education. Ms. Shaker received her Master's Degree in Public Policy from the University of Chicago and her Bachelor's Degree from DePaul University.

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 683 attendance centers consisting of 482 elementary schools, 119 high schools and 82 charter schools serving 402,681 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
2010/2011	289,045	113,636	402,681
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

Capital Improvement Program

Each year the Board undertakes a capital program to improve and maintain its sites and building space. These sites comprise schools, playgrounds, and Campus Parks plus extensive green space. The fiscal year 2012 budget proposes $391.1 million for new projects, including building renovations (such as new windows, new roofs, masonry, Americans with Disabilities Act improvements, energy efficiencies and information technologies), facility additions and site improvements, and building interiors, among others.

For fiscal year 2012, the capital plan will be guided by legislation passed by the General Assembly and signed by the Governor on August 22, 2011, Public Act 97-074. This Act provides greater transparency in the Board's capital planning process. In response, space utilization standards and facility performance standards will be published, a biannual capital needs review process will be put into place, and by May 1, 2012 the Board will publish a 1 year and 5 year capital improvement plan. Additionally, by September 30 of each year, starting in 2012, the Board will publish an annual capital expenditure report. In fiscal year 2013, the Board will use these guidelines and data to present a ten year Educational Facility Master Plan which will be driven by an Educational Plan. The Facility Master Plan will be updated every five years thereafter. In the coming months, the Board will begin to release information consistent with this legislation.

In addition to the new projects to be included in the fiscal year 2012 capital program, the capital budget also reflects continuing projects from the fiscal 2009-2011 capital budgets, as well as the Modern Schools Across Chicago program. Modern Schools Across Chicago is a joint plan between the City and the Board of Education to build 24 new schools and renovate three others across the City. The $1.2 billion plan was funded primarily through City tax incremental financing dollars and proceeds of bonds issued by the Board between 2007 and 2010. It brings nine new high schools, fifteen new elementary schools and three high school renovations to neighborhoods across the City.

In total $567.0 million is anticipated to be spent on the capital program during fiscal year 2012. The capital program is supported from a number of sources, including local revenue, state revenue from the state capital program and Board bond issuance.

Educational Reform Initiatives

The mission of the Board's new administration is to provide a world-class education for all children and to graduate students who are college- and career-ready. Upon assuming leadership, CEO Brizard and his team identified a more immediate concern: a significant and growing budget deficit. The team instituted $400 million in non-classroom cuts for the fiscal year 2012 budget. These cuts involved difficult choices necessary to close the budget gap while maintaining and investing new funding for programs that boost student achievement.

The cuts included central office administrative and non-classroom spending. The new budget protected key priorities that invest in children, including the maintaining of current classroom size and funding for magnet schools, the public safety program "Culture of Calm," World Language Programs and Early Childhood Education.

Longer School Days and Time on Task. Chicago Public Schools have the shortest school day of the ten largest public school systems in the country. Students are receiving 15% less instructional time than the national average. The Board has announced plans to increase instructional time during the day by 90 minutes and lengthen the school year by two weeks to provide the critical instructional time needed to boost student achievement. In addition, the Board has begun a Longer School Day Pioneer Program that is open in the 2011/2012 school year to any school whose teachers choose to approve a waiver to the Chicago Teachers Union (the "**CTU**") collective bargaining agreement allowing for the longer day. The CTU has challenged the Board's authority to implement this Plan (see "**LITIGATION—Specific Matters**"). National research and education experts all point to the correlation between a longer school day and school year and improved student performance in the classroom. The Board will implement a district-wide strategy to extend the school day and school year for the 2012/2013 school year beginning in the fall of 2011 and will engage stakeholders to help build a plan to ensure a successful transition.

Engage Parents, Provide Transparent Information about School Performance and Expect Parent Involvement. The Board's goal is to provide every parent in every community multiple high performing school options. This year, the Board will build benchmarked, transparent performance standards and tools for both assessing performance and enforcing standards. These new standards will give parents the tools they need to accurately assess the full portfolio of school options available for their children.

Empower Principals to be Creative and Innovative to Boost Student Achievement while Holding Principals Accountable for Results. The Board needs to significantly increase the number of highly skilled, highly effective principals in order to transform underperforming schools effectively. One early step taken by the new leadership team, with support from private partners, is forming the Chicago Leadership Collaborative ("**CLC**"), a principal training and support program designed to ensure that every school has a highly effective leader. CLC will recruit, train, support, retain and provide metric-based financial incentives for effective principals, and create a pipeline of highly qualified and high skilled leaders to meet the Board's growing needs. Under the new program, the Board will triple the number of residency program seats available to aspiring school leaders from 32 to 100. The Board has also instituted a Principal Performance Incentives program that will recognize and reward great principals in order to retain them within the school district

Give Teachers the Resources They Need to Thrive and Teach Students Effectively. This year the Board will begin the push towards transforming curriculum and instruction throughout the system to prepare students for college and career expectations by establishing curriculum and assessment based on Common Core State Standards ("**CCSS**"). These standards describe what students should know and be able to do at every grade level in mathematics and literacy in order to be prepared for college and career and to succeed in a global society. The push for CCSS complements the Board's intent to lengthen the school day by providing more opportunity for time on task in key areas like mathematics and literacy.

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 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. The agreement stipulates that the Board must proactively assert on an annual basis that there is funding available in the upcoming fiscal year to pay for such increases. On June 15, 2011, the Board voted to forgo the 4% cost-of-living adjustment based on projected financial strain. The CTU and the Board are engaged in negotiations on the current contract.

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 "**– Teacher Pension Obligations**."

Overview of Board's Fiscal Year 2012 Budget and Recent Financial Information Concerning the Board

The Board uses a governmental fund structure that provides for separate accounting for the General Operating Fund, Capital Project Fund, and Debt Service Fund. The General Operating Fund includes the General and Special Revenue Programs. The Capital Improvement Program and the Capital Project Fund are discussed separately.

The Board ended fiscal year 2011 with an estimated surplus of $288.5 million in its General Operating Fund. As shown in the table below, fiscal year 2011 revenues were $5,125.3 million, an increase of 7.3% from fiscal year 2010. Expenditures for fiscal year 2011 were $4,946.8 million, an increase of 1.1% from fiscal year 2010. A $110.0 million one-time transfer resulted from a bond debt service restructuring implemented in 2010.

On August 24, 2011 the Board adopted its fiscal 2012 budget. For fiscal year 2012, revenues are projected to decrease $256.1 million (5%) to $4,869.1 million. This is primarily the result of several one-time revenues that were received in fiscal year 2011, including an increase in the Personal Property Replacement Tax, and a Tax Increment Financing district surplus. Additionally, federal stimulus funds under the American Reinvestment and Recovery Act (ARRA) ended in fiscal 2011, decreasing the Board's federal revenues. The State of Illinois, which had delayed certain payments to the Board, paid down some of its outstanding obligations to the Board. As of June 30, 2011, the State owed the Board $167.1 million. This compares to $236.0 million the State owed the Board as of fiscal year 2010.

The Board also took action to stabilize its revenues by adopting a property tax increase equal to the maximum tax increase allowed under the Property Tax Extension Limitation Law (PTELL) and by taxing all new property in the district. As a result of this action, the Board anticipates an additional $150.3 million in revenue in fiscal year 2012.

The budget includes conservative revenue assumptions. The budget assumes that the State will continue to owe the Board $167.1 million in non-GSA payments at the end of fiscal year 2012, that General State Aid will be provided at 95% of the statutory level (consistent with the state appropriation), and that Personal Property Replacement Taxes will return to historical levels.

The appropriation for the fiscal year 2012 General Operating Fund budget totals $5,110.2 million. The Board took action to forego a 4% collective bargaining across-the board cost of living increase that was to go into effect on July 1, 2011. Despite this, approximately $100 million of the appropriation increase is the result of compensation costs, including health care costs, longevity and educational increases for teachers, and estimated payments for unused vacation and sick days. See **APPENDIX A – "Audited Financial Statements for Fiscal Year 2010"** – Note 11.

The budget also reflects other actions to reduce expenditures, including a reorganization that is projected to save $60 million. The fiscal year 2012 budget projects an end of year shortfall of $241.1 million which will be closed by the use of fund balance.

General Operating Fund Balances

As of June 30, 2011, the Board had an estimated fund balance of $713.2 million, of which approximately $243 million is reserved for non-spendable and restricted fund balances. Of this, $59.8 million is re-appropriated to the schools as unspent prior-year poverty grant (Supplemental General State Aid) funds. Year-end assigned and unassigned fund balances for fiscal year 2011 are $289 million and $181.3 million, respectively. Fiscal year 2012 is projected to end with a $289.0 million assigned fund balance and no unassigned fund balance.

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

(Amounts in Thousands)

	Actual (as of June 30) [2]				Estimated	Budget
	2007[3]	**2008**	**2009**	**2010**	**2011**	**2012**
Revenue:						
Property Taxes	$1,716,516	$1,763,282	$1,867,350	$2,035,938	$1,904,200	$2,038,000
Replacement Taxes	147,403	159,805	132,819	96,816	172,400	103,560
State Aid	1,549,493	1,692,351	1,333,182	1,367,797	1,684,800	1,619,242
Federal Aid	711,963	832,526	1,122,805	1,160,412	1,142,800	977,317
Interest and investment income	61,595	40,905	21,405	3,084	2,000	2,100
Other	95,534	96,816	102,107	111,985	219,100	128,891
Total Revenue	$4,282,504	$4,585,685	$4,579,668	$4,776,032	$5,125,300	$4,869,110
Expenditures:						
Salaries:						
Teachers	$1,924,109	$1,885,400	$1,975,940	$2,026,257	$2,019,869	$2,082,768
Career Services / Education Services Personnel	535,148	559,741	597,533	604,042	618,083	628,859
Commodities:						
Energy	77,133	86,759	92,354	78,682	80,730	82,590
Food	83,798	83,326	89,592	93,088	96,336	112,249
Other Commodities	112,789	136,454	131,926	119,590	133,446	136,121
Services:						
Professional Services	322,252	360,277	440,921	381,851	450,551	374,771
Charter schools	141,030	189,006	256,154	326,322	374,479	417,796
Transportation	97,076	102,828	109,351	109,349	110,431	110,254
Other	124,689	135,032	131,669	130,116	142,186	124,826
Building and sites	32,978.00	37,009	34,784	31,864	39,518	37,865
Fixed Charges:						
Teachers' pension	282,488	350,483	392,801	475,628	310,212	339,336
Career Services / Education Services Personnel pension	83,317	89,776	93,791	96,913	96,897	99,796
Hospitalization and dental insurance	250,765	260,386	299,206	311,048	355,943	348,352
Other Benefits	58,134	66,596	70,414	79,070	82,796	84,499
Other Fixed Charges	20,663	51,612	26,343	32,322	35,276	130,118
Total Expenditures	$4,146,369	$4,394,685	$4,742,779	$4,896,142	$4,946,753	$5,110,200
Revenue (less Than) Expenditure	$136,135	$191,000	$(163,111)	$(120,110)	$178,547	$(241,090)
Transfers in	1,904	3,813	20,389	17,851	110,000	–
Net Change in Fund Balance	138,039	194,813	(142,722)	(102,259)	288,547	(241,090)
Fund Balance, beginning of period	495,897	474,783	669,596	526,874	424,615	713,162
Fund Balance, end of period	$633,936	$669,596	$526,874	$424,615	$713,162	$472,072
Composition of Fund Balance						
Non-Spendable	$ 8,138	$ 7,062	$ 4,917	$ 5,005	$ 5,062	$ 5,072
Restricted	185,021	155,002	162,331	201,070	237,800	178,000
Assigned	271,647	338,377	234,961	24,655	289,000	289,000
Unassigned	169,129	169,154	124,664	193,884	181,300	–
Total Ending Fund Balance	$633,935	$669,595	$526,873	$424,614	$713,162	$472,072

(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 2010."**

(2) The fund balance classifications in the table have been revised from their respective Comprehensive Annual Financial Reports to reflect new fund balance categories to be implemented in the fiscal 2011 audit, as required by Governmental Accounting Standards Board No. 54.

(3) Fund balances for the year ended June 30, 2007 have been retrospectively adjusted to reflect the change in the recognized accrual period for certain revenue from 90 days to 30 days.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately $5.6 billion aggregate principal amount of outstanding long-term debt, consisting of approximately $5.25 billion aggregate principal amount of Alternate Bonds and approximately $330 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 of Education 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.

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Board's Overlapping Debt Schedule
as of October 11, 2011
(Dollars in Thousands)

Direct Debt			
Series 2011A			$ 402,410
Total Prior Bonds			5,249,147
Leases Securing PBC Bonds (principal component)			330,375
Total Direct Debt			$ 5,981,932
Overlapping Debt[1]	Amount	Percent Applicable	Amount Applicable
City	$7,319,692	100.00%	$ 7,319,692
Chicago Park District[2]	924,975	100.00%	924,975
Water Reclamation District	2,356,979	49.18%	1,159,162
County	3,499,615	48.17%	1,685,765
Forest Preserve District	101,935	48.17%	49,102
Total Overlapping Debt			$ 11,138,696
Total Direct and Overlapping Debt			$17,120,628
Population (2009)			2,896,016[4]
Equalized Assessed Valuation (2009)[3]			$82,087,170[5]
Estimated Fair Market Value (2009)			$280,288,730[6]

	Per Capita[7]	% EAV	% FMV
Direct Debt	$ 2,066	7.29%	2.134%
Total Direct and Overlapping Debt	5,912	20.86%	6.108%

(1) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the Chicago Park District in the amount of $19,205,000.
(2) Includes $499,975,000 of outstanding general obligation bonds issued as Alternate Bonds under the Debt Reform Act for which the alternate revenue source is personal property replacement tax revenues and parking revenues.
(3) Real property located in Cook County only.
(4) Source: United States Census Bureau. The census is conducted decennially at the start of each decade.
(5) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
(6) Source: The Civic Federation.
(7) Per Capita amounts are not expressed as dollars in thousands.

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BOARD'S DEBT SERVICE SCHEDULE[1]

Calendar Year	Prior Bonds[2]	PBC Leases	Series 2011A	Total Annual Debt Service
2011	$ 330,913,362	$ 52,232,025	$ -	$ 383,145,387
2012	311,382,557	52,318,625	22,890,156	386,591,338
2013	418,667,899	52,359,513	21,129,375	492,156,787
2014	436,440,557	52,430,550	21,129,375	510,000,482
2015	436,309,747	52,467,613	21,129,375	509,906,735
2016	428,614,207	52,519,550	21,129,375	502,263,132
2017	429,950,517	52,600,125	21,129,375	503,680,017
2018	427,021,656	52,664,600	21,129,375	500,815,631
2019	448,388,166	30,635,500	21,129,375	500,153,041
2020	475,671,084	-	21,129,375	496,800,459
2021	494,255,570	-	21,129,375	515,384,945
2022	488,948,508	-	21,129,375	510,077,883
2023	474,068,213	-	21,129,375	495,197,588
2024	481,678,799	-	21,129,375	502,808,174
2025	537,157,697	-	21,129,375	558,287,072
2026	476,282,399	-	21,129,375	497,411,774
2027	478,447,580	-	21,129,375	499,576,955
2028	482,783,642	-	21,129,375	503,913,017
2029	482,837,792	-	21,129,375	503,967,167
2030	456,016,001	-	21,129,375	477,145,376
2031	455,502,772	-	21,129,375	476,632,147
2032	165,617,727	-	21,129,375	186,747,102
2033	124,432,410	-	21,129,375	145,561,785
2034	123,661,266	-	21,129,375	144,790,641
2035	107,796,350	-	33,569,375	141,365,725
2036	93,856,721	-	47,510,175	141,366,896
2037	70,418,026	-	70,951,600	141,369,626
2038	69,992,868	-	71,371,875	141,364,743
2039	69,540,574	-	71,826,750	141,367,324
2040	69,045,616	-	72,323,250	141,368,866
2041	-	-	141,360,500	141,360,500
	$ 10,345,700,283	$ 450,228,101	$ 996,649,931	$ 11,792,578,315

(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.

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Legal Debt Margin Information of the Board
Last Five Available Fiscal Years
(Dollars in Thousands)
As of June 30

	2006	2007	2008	2009	2010
Assessed Value[1]	$59,310,826	$69,517,264	$73,651,158	$80,983,239	$84,592,286
Debt Limit	8,184,894	9,593,382	10,163,860	11,175,687	11,673,736
General Obligation	711,982	658,947	606,009	553,134	498,593
Less: Amount set aside for repayment of bonds	(39,984)	(37,322)	(36,238)	(34,719)	(16,042)
Total Net Debt applicable to Debt Limit[2]	671,998	621,625	569,771	518,415	482,551
Legal debt margin	$7,512,896	$8,971,758	$9,594,089	$10,657,272	$11,191,184
Total net debt applicable to the limit as a percentage of Debt Limit	8.21%	6.48%	5.61%	4.64%	4.13%

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(1) Includes taxable property in the School District located in Cook County and DuPage County.
(2) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect Alternate Bonds because such bonds do not count against the debt limit unless the tax levy supporting them is extended for collection.

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Board's Interest Rate Swap Agreements

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

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

Series	Counterparty	Rating of Counterparty (Moody's/ Standard & Poor's) [1]	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2000C	Royal Bank of Canada	Aa1/AA-	3/1/2007	$61,100,000	3/1/2032	3.823%	70% of LIBOR
2010A	Royal Bank of Canada	Aa1/AA-	3/1/2007	$48,910,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC [2]	Aa3/A+	11/1/2005	$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch Capital Services, Inc.	Baa1/A	11/1/2005	$77,434,000	12/1/2031	BMA Index	80.76% of LIBOR
2010B	Loop Financial Products I LLC [2]	Aa3/A+	12/8/2005	$157,055,000	3/1/2036	3.6617%	70% of LIBOR
2008A	Royal Bank of Canada	Aa1/AA-	5/13/2008	$162,785,000	12/1/2028	5.25%	70% of LIBOR + 28 bp
	Bank of America , N.A	A2/A+	5/13/2008	$100,000,000	12/2/2030	5.25%	70% of LIBOR + 28 bp
2008B	Goldman Sachs Bank USA [3), (4]	A1/A	1/27/2010	$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs Bank USA[4]	A1/A	5/13/2008	$90,000,000	3/1/2034	3.771%	70% of LIBOR
2009A	Loop Financial Products I LLC [2]	Aa3/A+	3/10/2009	$130,000,000	3/1/2026	3.6617%	70% of LIBOR
2009B	Royal Bank of Canada	Aa1/AA-	6/25/2009	$75,410,000	3/1/2035	3.825%	70% of LIBOR

(1) As of September 22, 2011.
(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.
(4) The swaps are guaranteed by The Goldman Sachs Group, 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.

Teacher Pension Obligations

Teacher Pension Funding Overview. Pension payments have been and will continue to be a significant budget pressure for the Board. The Board experienced a nearly tenfold increase in pension contributions during fiscal years 2006 through 2010 as the Pension Fund's funded ratio fell below 90% (the statutory required funding level, as described below under "*—Legal Authority and Funding Requirements*"), due to factors including investment losses, liability increases, and an increased number of retirees. The fiscal year 2010 unfunded actuarial liability climbed to $5.4 billion against assets of nearly $11 billion resulting in a funded ratio of 67.1%. As detailed in **Table 3** below, the funded ratio is projected to decline to a low of 49.7% by fiscal year 2013.

Legislative changes in 2010 (Public Act 96-0889, passed March 24, 2010), provided partial funding relief to the Board for fiscal years 2011 through 2013 by reducing the Board's pension contribution payments to approximately $200 million per year. Although these payments are significantly greater than the 2006 payment of $35.2 million, they provide relief in comparison to the $325 million contribution in 2010 and the $648 million 2014 projected contribution requirement. Public Act 96-0889 also provided certain reforms to the Board's teacher pension system by reducing benefits for new hires; it increased the minimum retirement age; reduced annual cost of living adjustments (i.e. automatic salary increases); changed the benefit calculations; capped total pensionable salary; and suspended retirement benefits if the beneficiary takes another job with a pension. While these changes are meaningful, more structural reform may be necessary to address fiscal pressure in the Pension Fund.

The Board is actively investigating ways to address its obligations to the Pension Fund. Those actions include exploring options in conjunction with efforts by the City of Chicago and other sister agencies and enlisting the assistance of financial advisors, as well as, the cooperation of the Pension Fund. The Board expects it will need to work with State leaders to consider a legislative strategy to achieve additional structural reform of the pension system. Many governments in the State of Illinois face pension funding challenges; the number of pension bills advanced in 2011 suggests that this problem is on the State's legislative agenda.

Source Information. Except as discussed under **"—** *Recent Reports Regarding the Pension Fund*,**"** and certain information derived from the Comprehensive Annual Financial Reports of the Chicago Public Schools, the information contained under the heading **"Teacher Pension Obligations"** relies on the Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2001 through 2010 (the "**Actuarial Valuations**") prepared by Goldstein & Associates, Actuaries and Consultants, independent actuaries engaged by the Pension Board (the "**Actuaries**") (See **APPENDIX B**) and the comprehensive annual financial reports of the Pension Fund for the fiscal year ending June 30, 2010 (the **"Pension Fund 2010 CAFR")** prepared by the Pension Fund's independent auditors KPMG LLP, Chicago, Illinois (the "**Pension Fund Auditors**") (the Actuarial Valuations and the Pension Fund 2010 CAFR are referred to as the **"Source Information"**). The Board has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information. The Pension Fund 2010 CAFR and the 2010 Actuarial Valuation are the most recent audit and actuarial valuation available to the Board. The Pension Fund 2010 CAFR states that questions about any information provided in that report should be addressed to:

Public School Teachers' Pension and Retirement Fund of Chicago, ATTN: Executive Director, 203 North LaSalle Street, Suite 2600, Chicago, IL 60601-1231.

Cautionary Language. The information included under heading "**Teacher Pension Obligations**" relies on source Information produced by the Pension Fund Auditors and the Actuaries. Actuarial assessments are "forward-looking" information that reflects the judgment of the Pension Fund fiduciaries. A variety of factors impact the Pension Fund's Unfunded Actuarial Liability and Funded Ratio. Increases in member salary and benefits, a lower rate of return on investment than that assumed by the Pension Fund and insufficient contributions when compared to the normal cost plus interest will all cause an increase in the Unfunded Actuarial Liability and a decrease in the Funded Ratio. Conversely, decreases in member salary and benefits, a higher return on investment than assumed and employer contributions in excess of normal cost plus interest will decrease the Unfunded Actuarial Liability and increase the Funded Ratio. In addition, changes in actuarial assumptions and certain other factors will have an impact on the Unfunded Actuarial Liability and the Funded Ratio. No assurances can be given that the Board or the State will make the appropriations necessary to meet any escalating costs incurred by the Pension Fund.

Chicago Teachers' Pension Fund. Pension benefits for eligible teachers and administrators of the Board are provided under a cost-sharing multiple-employer defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "**Pension Fund**"), to which the Board is the main contributor along with approved City of Chicago charter schools. See **APPENDIX A –** "**Audited Financial Statements for Fiscal Year 2010**" **–** Note 12.

Participation in the Pension Fund is mandatory for teachers, educational, administrative, professional and other certified individuals employed by the Board. The Pension Fund is governed by a 12 member Board of Trustees (the **"Pension Board"**) including six trustees elected by the active teacher membership, three trustees elected by the retired teacher membership, one trustee elected by the active principals and administrators, and two trustees appointed by the Board. The Pension Board is authorized by state law to make investments, pay benefits, hire staff and consultants, and carry out all necessary functions in compliance with the Illinois Pension Code, as defined below.

Legal Authority and Funding Requirements. The Pension Fund is a public employee retirement system established by the State of Illinois to provide annuity, disability, survivor, death, and health benefits for certain certified teachers and other employees of the Chicago Public Schools and approved City of Chicago charter schools. It is administered in accordance with Chapter 40, Act 5, Articles 1, 1A, 17, and 20 of the Illinois Compiled Statutes and has a fiscal year ending June 30 (the "**Illinois Pension Code**").

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund and establishes the statutorily required contributions from the Board, the State of Illinois and participating employees. Board (and State) contributions are required (the "**Statutory Required Contributions**") only if the actuarially determined value of the assets to its actuarially determined accrued liabilities (the "**Funded Ratio**") is less than 90%. The Illinois Pension Code does not require that assets of the Pension Fund at any time equal or exceed the actuarially determined accrued liabilities of the Pension Fund. The Statutory Required Contributions are substantially less than and do not conform with the requirements of GASB 25. See **"—***Statutory Funding Plan Not in Accordance with GASB 25***."**

Section 5 of Article XIII of the Illinois Constitution provides that "Membership in any pension retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

In 2010, the General Assembly of the State enacted Public Act 96-0889, which was signed by the Governor on April 14, 2010 ("**P.A. 96-0889**") and was designed to provide relief to the Board from its pension funding obligations. P.A. 96-0889 extended the statutory deadline for the Board to bring the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities to 90% and substantially reduced the Board's contribution requirements for fiscal years 2011, 2012 and 2013. In addition it provided reduced retirement benefits for future employees who become members of the Pension Fund after January 1, 2011. P.A. 96-0889 established a "two-tier" benefit system with less generous benefits for future employees who become members of the Pension Fund after January 1, 2011, as compared to those provided to current Board employees. Among other reforms, P.A. 96-0889:

- Increased the minimum age at which an employee may retire with unreduced benefits to age 67, from age 60 or younger based on a formula combining the age of the employee and the number of years of service;
- Reduces the cost of living adjustment to the lower of 3% or 50% of the change in the consumer price index for all urban consumers, whichever is lower, and eliminates compounding for employees hired after January 1, 2011, from a cost of living adjustment of 3%, compounded;
- Calculates benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired after January 1, 2011, from a calculation based on the highest four consecutive year average compensation;
- Caps the salary on which a pension may be calculated at $106,800 (subject to certain adjustments for inflation); and
- Suspends retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

Pension Fund Contributions. The Illinois Pension Code requires funding of the Pension Fund from contributions by the Board (the employer), the State and employees. On an annual basis, an actuarial valuation is performed by an independent actuary firm retained by the Pension Board (each an **"Actuarial Valuation"**) in order to determine the amount of required contributions. The Illinois Pension Code provides for an actuarially determined funding plan intended to maintain the assets of the Pension Fund at a level equal to 90% of the liabilities of the Pension Fund.

Members and Member Contributions. As of June 30, 2010, the Pension Fund included 61,335 members consisting of 24,600 retirees and beneficiaries currently receiving benefits, 2,752 terminated members entitled to benefits but not yet receiving them, 21,983 vested current members and 12,000 nonvested current members. The Pension Fund's active contributors make annual contributions to the Pension Fund from their salaries which contributions are currently set at 9% of covered payroll. As part of its collective bargaining agreement with the Chicago Teachers Union ("**CTU**"), the Board pays a substantial portion of the employee contribution in an amount equal to 7% of covered payroll.

Employer Required Annual Statutory Contributions. Prior to the enactment of P.A. 96-0889, the Illinois Pension Code required that the Board's minimum contributions for each fiscal year be in an amount sufficient to bring the Funded Ratio to equal 90% by fiscal year 2045. P.A. 96-0899 extended the deadline to achieve the required 90% Funding Ratio by fourteen years from fiscal year 2045 to fiscal year 2059. In addition P.A. 96-0889 specified fixed Board contribution amounts for fiscal years 2011, 2012 and 2013 ($187,000,000, $192,000,000 and $196,000,000, respectively) which are substantially lower than the amounts which would otherwise be required by the Illinois Pension Code (required contributions were decreased approximately $400,000,000 for each of those years). This reduction in required contributions by the Board further increases the unfunded liability of the Pension Fund.

Beginning in fiscal year 2014, the Board's minimum contributions for fiscal years 2014 through 2059 will be required in an increased amount, as determined by the Pension Fund, to be sufficient to bring the Funded Ratio to 90% by the end of fiscal year 2059, and the Board will be required to make annual contributions to maintain the 90% Funded Ratio in each fiscal year thereafter. See **Table 3**.

State and Board Required Payroll Contributions. The Illinois Pension Code requires that the State and Board make an annual contribution to the Pension Fund equal to a defined percentage of total teacher payroll (.544% of payroll for the "**State Payroll Contribution**" and .58% of payroll for the Board contribution for the "**Board Payroll Contribution**"). These contributions are not required in those years in which the Pension Board has certified that the Pension Fund is at least 90% funded. The required contributions based on payroll for fiscal year 2012 are $11,001,000 for the State and $11,729,000 for the Board.

State Appropriation Contributions. The State has historically made contributions to the Pension Fund from state appropriations in the amount of $65,000,000 per year in addition to the State's required statutory contributions. These contributions were in furtherance of provisions of the Illinois Pension Code adopted in 1998 regarding the goal and intention of the State to make annual contributions to the Pension Fund in an amount that is between 20% and 30% of the amount of the annual State contribution to the other teachers' retirement system in the State. For fiscal years 2010 and 2011 the State appropriation was reduced by approximately 50%. No appropriation in excess of required statutory contributions of $10.4 million was made by the State for fiscal year 2012.

Credit for State Contributions. The Illinois Pension Code provides that "[a]ny contribution by the State to or for the benefit of the Fund . . . shall be a credit against any contribution required to be made by the Board of Education . . . ." The interpretation and application of this provision is the subject of pending litigation between the Board and the Pension Board. See the discussion under the heading **"LITIGATION."**

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The following table provides historical contribution information and the Actuarially Required Contribution (as hereinafter defined) for fiscal years 2001-2010.

Table 1

Historical Contributions

(All dollar amounts are in millions)

Fiscal Year	Employee Contributions	State Appropriations and Payroll Contributions[1]	BOE Contributions[2]	Total Employer Contributions	Actuarially Required Contribution (ARC)[3]
2001	$131.7	$65.0	$ 14.3	$ 79.3	$138.4
2002	146.5	65.0	10.3	75.3	178.9
2003	144.1	65.0	13.2	78.2	160.2
2004	140.4	0.0	85.3	85.3	203.0
2005	158.6	65.0	9.7	74.7	258.9
2006	158.6	74.9	35.2	110.1	328.4
2007	148.2	75.2	92.0	167.2	370.2
2008	161.2	75.2	149.9	225.1	290.1
2009	166.8	74.8	188.3	263.1	292.1
2010	161.2	37.6	324.6	362.2	355.8

Source: Chicago Public Schools Comprehensive Annual Financial Reports for fiscal years ended June 30, 2001-2010

(1) As discussed above under "—**State Appropriation Contributions**" the State historically appropriated $65 million in non-General State Aid funds to the Pension Fund except that for fiscal year 2004 the State failed to make such appropriation and instead provided that amount to the Board for capital purposes. The figures for fiscal years 2006 through 2009 reflect additional payroll contributions received from the State.

(2) "BOE Contributions" are comprised of a number of contributions that are described in Note 12 to the Chicago Public School Comprehensive Annual Financial Reports and are included in the "Total Employer Contributions" ("Total Employer Contributions" - "State Appropriations" = "BOE Contributions").

(3) "Actuarially Required Contributions" do not include the required contributions associated with the Health Insurance Program as described under "—**Other Post-Employment Benefits and Other Board Liabilities**". Also note that this concept is referred to in the Chicago Public Schools Comprehensive Annual Financial Reports as "Annual Required Contributions" – see footnote to section "-*Actuarial Process*" for explanation of naming convention herein.

Litigation Regarding Board's Funding Obligations. The Pension Board has filed several law suits against the Board which include allegations that the Board's contributions to the Pension Fund for fiscal years 2010 and 2011 are less than the contribution required by the Illinois Pension Code. See the discussion under the heading **"LITIGATION."**

Funded Status of Pension Fund. As of the end of fiscal year 2010, the Pension Fund had liabilities of $16,319,743,665 and assets of: (i) $10,952,274,725 if valued on an actuarial basis (using the "Asset Smoothing Method" (as described below), or (ii) $8,982,328,064 if valued based on market value. This results in an aggregate Unfunded Actuarial Liability of the Pension Fund of approximately $5.4 billion on an actuarial basis (using the Asset Smoothing Method), and $7.3 billion on a market value basis and Funded Ratios of 67.1% on an actuarial basis (using the Asset Smoothing Method) and 55.0% on a market value basis. The fiscal 2010 Actuarial Liability represents an increase of $636.5 million compared to the Actuarial Liability of $15.7 billion as of June 30, 2009 resulting in an increase of the total Unfunded Actuarial Liability from $4.2 billion to $5.4 billion during the year. Additional information regarding the financial condition of the Pension Fund, including the actuarial value of assets and actuarial liability can be found in the 2010 Actuarial Valuation. Information in the Actuarial Valuation regarding the reconciliation of change in unfunded actuarial liability shows the impact of such factors as salaries, funding status and investment returns. See **APPENDIX B – "Pension Fund Actuarial Valuation for Fiscal Year 2010"** – Exhibits 3, 4 and 6.

The following table summarizes the Actuarial Value of Assets, Actuarial Accrued Liability, Unfunded Actuarial Accrued Liability and Funded Ratio of the Pension Fund for fiscal years 2001-2010 and the Annual Covered Payroll.

Table 2

Funded Status[1]
(All dollar amounts are in thousands)

Fiscal Year	Actuarial Value of Assets	Total Actuarial Liability - Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll[2]
2001	$10,387,569	$10,392,705	$ 5,136	99.9%	$1,690,264
2002	10,619,061	11,025,482	406,421	96.3%	1,759,046
2003	10,494,755	11,411,528	916,774	92.0%	1,706,205
2004	10,392,193	12,105,681	1,713,487	85.8%	1,767,631
2005	10,506,471	13,295,876	2,789,405	79.0%	1,968,612
2006	10,947,998	14,035,627	3,087,629	78.0%	1,944,358
2007	11,807,101	14,677,184	2,870,084	80.4%	1,863,182
2008	12,114,406	15,203,741	3,089,334	79.7%	1,914,559
2009	11,542,948	15,683,242	4,140,294	73.6%	1,996,194
2010	10,952,275	16,319,744	5,367,469	67.1%	2,107,934

Sources: Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation for fiscal years ending June 30, 2001-2010.
Comprehensive Annual Financial Reports of the Pension Fund for the fiscal year ended June 30, 2010.

(1) Actuarial Value of Assets, Total Actuarial Liability and Unfunded Actuarial Liability reflect the combined actuarial valuation of the pension and retiree health insurance benefits performed by the Actuaries.

(2) Annual Covered Payroll figures from Chicago Public Schools Comprehensive Annual Financial Reports for fiscal years ended June 30, 2001-2009 (except for 2010 figure which was derived from the Comprehensive Annual Financial Reports of the Pension Fund for the fiscal year ended June 30, 2010).

The following are projected required contributions, liabilities, assets, unfunded liability and funded ratio for the Pension Fund prepared by the Actuaries and reflecting the impact of P.A. 96-0889. See **APPENDIX B – "Pension Fund Actuarial Valuation for Fiscal Year 2010"** – Exhibit 7.

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Table 3

Projection of Contributions, Liabilities and Assets[1]

(Board of Education contributions are based on Public Act 96-0889.)

(All dollar amounts are in millions. Actuarial Liability and asset figures as of end of year.)

Fiscal Year	Employee Contributions	Required Employer Contributions	Additional State Contribution	Additional BOE Contribution	Required Board of Education Contributions[2]	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2011	$177.3	$208.6	$10.4	$11.1	$187.0	$16,812.6	$9,807.0	$7,005.6	58.3%
2012	182.0	214.7	11.0	11.7	192.0	17,316.4	8,959.3	8,357.1	51.7
2013	186.6	219.3	11.3	12.0	196.0	17,831.5	8,868.0	8,963.5	49.7
2014	191.3	671.7	11.6	12.3	647.8	18,358.7	9,154.8	9,203.9	49.9
2015	196.3	689.0	11.9	12.6	664.5	18,899.2	9,449.4	9,449.8	50.0
2016	201.3	706.9	12.2	13.0	681.8	19,452.6	9,751.4	9,701.2	50.1
2017	206.5	725.1	12.5	13.3	699.3	20,019.6	10,061.6	9,958.0	50.3
2018	211.8	743.5	12.8	13.6	717.0	20,600.5	10,379.9	10,200.6	50.4
2019	217.2	762.5	13.1	14.0	735.4	21,196.6	10,707.7	10,488.9	50.5
2020	222.9	782.5	13.5	14.4	754.7	21,810.2	11,047.5	10,762.6	50.7
2021	228.8	803.3	13.8	14.7	774.7	22,443.9	11,402.2	11,041.7	50.8
2022	234.7	824.1	14.2	15.1	794.8	23,098.3	11,772.2	11,326.1	51.0
2023	240.8	845.6	14.6	15.5	815.5	23,774.5	12,159.0	11,615.5	51.1
2024	247.1	867.4	14.9	15.9	836.6	24,472.9	12,563.6	11,909.3	51.3
2025	253.3	889.4	15.3	16.3	857.8	25,193.2	12,985.9	12,207.3	51.5

Source: Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2010 (Exhibit 7).

[1] Total Actuarial Liability, Actuarial Value of Assets and Unfunded Actuarial Liability reflect the combined actuarial valuation of the pension and retiree health insurance benefits performed by the Actuaries.

[2] Any contributions by the State of Illinois (other than the Additional State Contribution shown above) are to be credited against the Required Board of Education Contributions.

Investment Authority, Performance and Valuation of Assets. Investment authority for the Pension Fund is found in the Illinois Compiled Statutes, Chapter 40, Act 5, Articles 1 and 17. A discussion of the specific investment authority, policy provisions, diversification posture, performance objective and asset allocation is available in the Pension Fund 2010 CAFR. The Pension Fund maintains a highly diversified portfolio of investments among U.S. stocks, real estate, fixed income, private equity, and international investments.

The Actuarial Valuations assume an investment rate of return on the assets in the Pension Fund. For the last ten fiscal years the Pension Fund assumed an investment rate of return of 8.0%. Due to the volatility of the marketplace, however, the actual rate of return earned by the Pension Fund on its assets may be higher or lower than the assumed rate. The most recent Actuarial Valuations show actual rates of return on the Pension Fund assets for fiscal year 2009 of -21% and for fiscal year 2010 of 14.1%.

As a result of the use of the Asset Smoothing Method, only a portion of investment gains or losses will be recognized in the year when realized, and the remaining gain or loss will be spread over the remaining three years. See "— *Asset Smoothing Method of Valuation*."

Risks and Uncertainties. The Pension Fund invests in various investment securities that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Pension Fund's assets and impact required contributions.

Use of Estimates and Assumptions. The Actuarial Valuations of the Pension Fund use a variety of estimates and assumptions to calculate the Actuarial Liability and the Actuarial Value of Assets. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Pension Fund. Actual results could differ from those estimates and assumptions. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Liability, the Unfunded Actuarial Liability, the Funded Ratio or the Actuarially Required Contribution, as defined below. Certain of these assumptions include mortality rates, termination rates, disability rates, retirement rates, salary progression, interest rates, marital status, spouse's age and total service credit at retirement. For additional information on these assumptions, please see the Pension Fund's Actuarial Valuation.

The Illinois Pension Code requires the Pension Fund to conduct an actuarial experience review every five years. The purpose of the experience review is to determine the adequacy of the actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Pension Fund. Based upon the results of this review, the Pension Fund may adopt such actuarial assumptions as it deems appropriate.

Asset Smoothing Method of Valuation. The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 25, which establishes standards of financial reporting for governmental pension plans. Under GASB Statement No. 25, the actuarial value of assets to be used for determining a plan's funded status and annual required contribution needs to be market related. In determining the actuarial value of assets, smoothing changes in the market value of assets over a period of three to five years is considered to be appropriate. The asset values used for the Actuarial Valuation by the Actuaries to determine required Board and State contributions were based on the asset information contained in the Pension Fund 2010 CAFR. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years.

Actuarial Process. Under the Illinois Pension Code, the required employer contributions to fund the Pension Fund are determined by independent actuaries on an annual basis within nine months of the end of the Pension Fund's fiscal year. Actuaries use demographic and other data (such as employee age, salary and service credits) and various assumptions (such as assumed investment return, estimated salary increases, interest rates, employee turnover, mortality and disability rates) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the Pension Fund to pay benefits when due. Because actuarial calculations reflect a long-term perspective, actuarially determined amounts are subject to continual revision, as results are compared to past expectations and new estimates made about the future. The Pension Fund's actuary then produces a report called the "**Actuarial Valuation**," in which the actuary reports on the Pension Fund's assets, liabilities and the Required Annual Statutory Contribution for the following fiscal year.

Although the Actuarial Valuation is prepared in accordance with generally accepted actuarial principles and practices, the Required Annual Statutory Contribution is computed in accordance with the Illinois Pension Code (the "**Statutory Funding Plan**"). As the Statutory Funding Plan does not conform with GASB, the Required Annual Statutory Contribution certified by the Actuaries in the Actuarial Valuation differs from the Actuarially Required Contribution[1] (defined below) that would be required

[1] GASB pronouncements refer to this concept as the Annual Required Contribution. For the convenience of the reader, this disclosure refers to the concept as the Actuarially Required Contribution to differentiate it from the concept of the Required Annual Statutory Contribution and to denote the fact that the Actuarially Required Contribution is the amount an actuary would require the Board to contribute in a given year, as opposed to the amount the Board will be required to contribute under applicable law.

under GASB. The difference between GASB's requirements and the Illinois Pension Code requirements are discussed in "*—Statutory Funding Plan Not in Accordance with GASB 25*" below.

Actuarial Valuation. The primary purpose of the Actuarial Valuation is to determine the amount the Board must contribute to the Pension Fund in a given fiscal year as provided in the Illinois Pension Code (the "**Required Annual Statutory Contribution**"). To determine the Required Annual Statutory Contribution, the actuary calculates both the "Actuarial Liability" and the "Actuarial Value of Assets." The Actuarial Liability is an estimate of the present value of the benefits the Pension Fund must pay to current and retired employees and is calculated by use of a variety of demographic and other data (such as estimated salary increases, interest rates, employee turnover, mortality and disability rates). See "**—***Investment Authority, Performance and Valuation of Assets*."

Any shortfall between the Actuarial Value of Assets and the Actuarial Liability is referred to as the "**Unfunded Actuarial Liability**" and represents the present value of benefits earned to date that are not covered by plan assets. In addition, the actuary will compute the "**Funded Ratio**," which is the result obtained by dividing the Actuarial Value of Assets by the Actuarial Liability. An increasing Unfunded Actuarial Liability or a decreasing Funded Ratio from year to year signals a deterioration in the financial health of a pension plan because it indicates the incurrence of additional liability without a corresponding increase in assets necessary to pay those additional liabilities. Conversely, a decreasing Unfunded Actuarial Liability or an increasing Funded Ratio indicates an improvement in the financial health of a pension plan because such change reflects a closing gap between the liabilities accrued by the pension plan and the assets necessary to pay those liabilities when they become due.

The Actuaries use the Actuarial Liability, the Actuarial Value of Assets and the Unfunded Actuarial Liability to compute the Required Annual Statutory Contribution for the Pension Fund in accordance with the Illinois Pension Code. See "**—***Required Annual Statutory Contributions*."

Statutory Funding Plan Not in Accordance with GASB 25. The method of amortizing the Unfunded Actuarial Liability used by the Statutory Funding Plan does not conform with the requirements of GASB 25 regarding financial reporting for defined-benefit pension plans. As a result, the Required Annual Statutory Contribution determined by the Pension Fund's Actuaries is less than the contribution that would otherwise be determined in accordance with GASB standards (the "**Actuarially Required Contribution**"). See "**—***Funded Status of Pension Fund*." The Actuarially Required Contribution consists of two components: (1) the portion of the present value of retirement benefits that are allocable to active members' current year of service, termed the "**Normal Cost**," and (2) an amortized portion of the Unfunded Actuarial Liability sufficient to eliminate the Unfunded Actuarial Liability over a period of time.

The Actuarial Valuation uses a method of valuation called the "**Asset Smoothing Method**" to calculate the Actuarial Valuation of Assets. See "**—***Asset Smoothing Method of Valuation*." Asset smoothing delays recognition of gains and losses, thereby providing an Actuarial Value of Assets that does not reflect the true value of pension plan assets at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method may provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes gains and losses annually. On June 16, 2010, GASB released a statement seeking comment on proposed changes to its public pension accounting standards. Among other significant changes to pension accounting, these proposed changes would restrict usage of the Asset Smoothing Method for accounting purposes. If the proposed changes are implemented and the Asset Smoothing Method continues to be used, it would constitute an additional departure from the methods required by GASB 25, as discussed below.

In addition to establishing the manner of measuring the Actuarial Value of Assets, the Illinois Pension Code mandates the use of the Statutory Funding Plan in calculating the Required Annual

Statutory Contribution. The provisions of the Statutory Funding Plan differ from those generally accepted accounting principles established in GASB 25 in four significant respects. First, the goal of the Statutory Funding Plan is to amortize the portion of the Unfunded Actuarial Liability necessary to allow the Pension Fund's Funded Ratio to reach 90% by 2059 whereas GASB 25 requires amortization of 100% of the Unfunded Actuarial Liability. Second, the Statutory Funding Plan allows the Board to contribute less than the level percent of payroll necessary to reach the desired funding level for the first 15 years of the Statutory Funding Plan (the "ramp-up" period) discussed below, which ended at the conclusion of fiscal year 2010). In contrast, GASB 25 does not permit a ramp-up to full contributions. Third, GASB 25 requires amortization of the Unfunded Actuarial Liability over a 30-year period. Conversely, beginning in fiscal year 2011 the Statutory Funding Plan amortizes the amount of the remaining Unfunded Actuarial Liability necessary to reach a 90% Funded Ratio over a 35-year period. Finally, whereas GASB 25 permits amortization of the Unfunded Actuarial Liability over an open amortization period, the Statutory Funding Plan requires amortization of the Unfunded Actuarial Liability over a closed period ending in 2059. A closed amortization period means that the Unfunded Actuarial Liability is amortized over a fixed number of years such that the Unfunded Actuarial Liability will decrease to a legally defined target (a 90% Funded Ratio by 2059) upon the passage of the amount of time established as the amortization period, provided required payments are made. For example, under the Statutory Funding Plan, the Required Annual Contribution for fiscal year 2011 will be calculated by using a 35-year amortization period. Conversely, an open amortization period has no term limit and is therefore recalculated over a new 30-year period each time a valuation is performed in accordance with GASB 25. Amortizing through use of a closed period will have the effect of decreasing the Unfunded Actuarial Liability at a greater rate and will allow the Board to reach its funding target by fiscal year 2059, *provided* that all required contributions are made.

These four differences between GASB 25 and the Statutory Funding Plan account for the variation between the Required Annual Statutory Contribution and the Actuarially Required Contribution.

The Actuarial Valuation of the Pension Fund uses the projected unit credit actuarial cost method to calculate the Actuarial Liability. Under this method, the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the actuarial liability. Under this method, the actuarial gains (losses), as they occur, generally reduce (increase) the Unfunded Actuarial Liability.

Recent Reports Regarding the Pension Fund. The Commission on Government Forecasting and Accountability ("**COGFA**") prepared a report on the financial condition of the Pension Fund as of June 30, 2009, in a report dated November 2010 (the "**COGFA Report**"). COGFA is a bipartisan, joint legislative commission intended to provide the General Assembly with information relevant to the State's economy, taxes, and other sources of revenue and debt obligations of the State. Among COGFA's list of specific responsibilities is to make an annual estimate of public pension funding requirements and to prepare pension impact notes. Furthermore, COGFA has a mandate to report to the General Assembly on economic trends in relation to long-range planning and budgeting and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as the same may affect the State. As a result of these responsibilities, COGFA issues several reports on an annual basis, including the COGFA Report, which provides an overview of the financial condition of the Pension Fund. The COGFA Report provides significant information on the funded status of the Pension Fund and historical and projected information with respect to the Pension Fund and a history of pension legislation. COGFA does not make findings in the COGFA Report.

Pensions for Other Board Personnel

Overview. Employees of the School District that are not members of the Pension Fund participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "**Annuity Fund**") which is considered a cost-sharing defined benefit, single employer plan. See **APPENDIX A** – "**Audited Financial Statements for Fiscal Year 2010**" – Note (12). Except as described below in section captioned "*Members and Member Contributions*," the Board makes no direct contributions to the Annuity Fund.

The Annuity Fund is administered under the direction of a retirement board (the "**Retirement Board**") comprised of three elected members and the City Treasurer and the City Comptroller serving ex-officio. The Retirement Board sets investment policies and objectives, hires investment managers and investment consultants, reviews investment performance and makes the final decision in granting or denying rights, credits and benefits to members.

Source Information. The information contained under the heading **"Pensions for Other Board Personnel"** relies on the comprehensive annual financial reports of the Annuity Fund for the fiscal year ending December 31, 2010 (the **"Annuity Fund 2010 CAFR")** prepared by the Annuity Fund's administrative staff and its independent auditors, Bansley and Kiener, L.L.P., Chicago, Illinois. On an annual basis, an actuarial valuation is performed by an independent actuary firm retained by the Retirement Board and the actuarial valuation as of December 31, 2010 (the "**2010 Annuity Fund Actuarial Valuation**" and together with the Annuity Fund 2010 CAFR, the "**Annuity Fund Source Information**"). The information presented herein is presented on the basis of the Annuity Fund Source Information and the Board has not independently verified, makes no representations nor expresses any opinion as to the accuracy of the Annuity Fund Source Information. Questions about any information provided in the Annuity Fund 2010 CAFR should be addressed to: Municipal Employees' Annuity and Benefit Fund of Chicago, ATTN: Executive Director, 321 North Clark Street, Suite 700, Chicago, IL 60654.

The Annuity Fund is a public employee retirement system established by the State of Illinois to provide annuity, disability, survivor, death, and health benefits for certain employees of the City of Chicago and the Board. It is administered in accordance with Chapter 40, Act 5, Articles 1 and 8 of the Illinois Compiled Statutes and has a fiscal year ending December 31.

Legal Authority and Funding. Article 8 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Annuity Fund and establishes the statutorily required contributions from participating employers and employees. Current members (totalling 67,552 as of December 31, 2010) contribute 8.5% of their salary. The Illinois Pension Code requires that the City of Chicago contribute 1.25 times the amount the member contributed two years prior (the "**Annuity Fund Statutory Required Contributions**"). The City is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Annuity Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.25 annually. The Illinois Pension Code does not require that the Annuity Fund Statutory Required Contributions be sufficient to cover the actuarially determined contribution requirement (the "**Annual Required Contribution**"). For the past eight years the Annuity Fund Statutory Required Contribution has been less than the Annual Required Contribution and does not conform with the requirements of GASB 25.

Members and Member Contributions. As of December 31, 2010, the Annuity Fund included 67,552 members consisting of 22,960 retirees and beneficiaries currently receiving benefits, 2,167 terminated members entitled to benefits but not yet receiving them, 11,699 terminated employees entitled to a refund of contributions, 17,531 vested current members and 13,195 nonvested current members.[1] In fiscal year 2010, the Board has agreed to pay (as it has since fiscal year 1981) 7% of current members salary to offset the required employees' contribution (8.5% of salary) to the Annuity Fund. In the opinion of the Board and its legal counsel, the Board has no statutory duty to contribute any sum to the Annuity Fund.

Funded Status of Annuity Fund. As of the end of fiscal year 2010, the Annuity Fund had liabilities of $12,052,229,876 and assets of: (i) $6,003,398,605 if valued on an actuarial basis (using the Asset Smoothing Method as required by the Illinois Pension Code, or (ii) $5,435,593,422 if valued based on market value. This results in an aggregate Unfunded Actuarial Liability of the Annuity Fund of approximately $6,048,840,271 on an actuarial basis (using the Asset Smoothing Method), and $6,616,636,454 on a fair value basis and Funded Ratios of 49.8% on an actuarial basis (using the Asset Smoothing Method) and 45.10% on a fair value basis.

Other Post-Employment Benefits and Other Board Liabilities

Retiree Health Insurance Program. 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. By statute, the Pension Fund cannot contribute more than 75% of the total health care premiums for retirees, and in 2011, the Pension Fund reduced the subsidy to 60%. This spending limit has changed several 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 would otherwise fall below 90% (see "**Teacher Pension Obligations –** *Pension Fund Contributions*"). 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.

Information regarding the Health Insurance Program can be found in the Pension Fund 2010 CAFR, as well as the Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation of Retiree Health Insurance Plan as of June 30, 2010 for GASB Statement No. 43 (the "**2010 Health Insurance Plan Actuarial Valuation**") prepared by the Actuaries. Pursuant to the 2010 Health Insurance Plan Actuarial Valuation, as of June 30, 2010 (a) the total actuarial liability for the Health Insurance Program has been estimated to be $2,864,877,305, (b) the actuarial value of assets is $34,857,732, (c) the unfunded actuarial liability is $2,830,019,573, (d) the funded ratio is 1.2% and (e) the annual required contribution to be $215,797,617. 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.

Sick Pay Benefits. In addition to the Pension and Health Insurance benefits noted above, as of June 30, 2010, the Board had $334,968,000 in accrued sick pay benefits. See **APPENDIX A –** "**Audited Financial Statements for Fiscal Year 2010**" – Note 11.

[1] Source: Actuarial Valuation of the Annuity Fund as of December 31, 2010.

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. The locations of the Board's Debt Policy and Investment Policy (below) are included herein solely for general background purposes and for the convenience of Bondholders. In no event is such information or any other information on the Board's website incorporated herein by reference, and the Underwriters are not responsible for the accuracy of the information contained on the Board's website.

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 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 a Mayor (the "**Mayor**"), elected at-large for a four-year term, and the City Council (the "**City Council**"). The City Council consists of 50 aldermen ("**Aldermen**"), each representing one of the City's 50 wards. Aldermen are elected for four-year terms.

The Chicago Park District (the "**Park District**") 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**") maintains a system of community colleges within the City. The Community College District is governed by a seven-member board, appointed by the Mayor with the approval of the City Council.

Cook County (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 voters of the entire County elect a number of County Officials, including the President of the Board of Commissioners, the County Sheriff, the County Assessor, the County Clerk, the State's Attorney and the County Treasurer.

The Forest Preserve District of Cook County (the "**Forest Preserve District**") is coterminous with the County. The Forest Preserve District creates, maintains and operates forest preserves within the County. The Forest Preserve District is governed by a seventeen-member board composed of the members of the County Board.

The Metropolitan Water Reclamation District of Greater Chicago (the "**Water Reclamation District**") 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 and 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 governmental units and other public 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, they are all separate legal and financial units, and the financial condition or circumstances of any one unit does not necessarily imply similar financial conditions or circumstances 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, including the Board. See "**BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule.**"

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. The CTA may not levy real property or other taxes.

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. 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 may not levy real property taxes.

The Metropolitan Pier and Exposition Authority (the "**MPEA**"), formerly known as the Metropolitan Fair and Exposition Authority, is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and Navy Pier. MPEA is authorized to impose certain taxes to provide security for its bonds. The MPEA may not levy real property taxes.

Chicago School Finance Authority

In 1979 and early 1980, the Board experienced 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 control powers was extended until December 31, 2010, but were to become inoperable if the Authority ceased to exist prior to that date. In accordance with the law, the 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 equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2009 and will be reassessed in 2012. The suburbs in the northern and northwestern portions of the County were 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 cash value of a parcel of land, that value is multiplied by one of the classification percentages to arrive at the assessed valuation (the "**Assessed Valuation**") for the parcel. As of the 2009 tax year, the classification percentages range from 10 to 25 percent depending on the type of property (e.g., residential, industrial, commercial) and whether it qualified for certain incentives for reduced rates.

The Cook County Board of Commissioners has adopted various amendments to the 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 incentive renewal periods of classifications and created new property classifications.

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by 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 Cook 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 state-wide 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 decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of 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.

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**").

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 $6,000 for assessment years 2009 and forward (the "**General Homestead Exemption**"). The General Homestead Exemption is available to Residential Property in all counties other than Cook County.

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. Of note, the Alternative General Homestead Exemption is limited to the amount of the General Homestead Exemption for properties that receive the Senior Citizen Assessment Freeze Homestead Exemption (hereinafter defined).

The Base Year for purposes of calculation of the Alternative General Homestead Exemption is 2003 for properties located in the City, 2004 for properties located in the northern and northwestern portions of the County and 2005 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: $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 2009 (with taxes payable in 2010), $16,000 for assessment year 2010 (with taxes payable in 2011) and $12,000 for the 2011 tax year (with taxes payable in 2012). For properties in the northern and northwestern portions of the County, the Alternative General Homestead Exemption cannot exceed $20,000 for assessment year 2009 and 2010 (with taxes payable in 2010 and 2011, respectively), and $16,000 for assessment year 2011 (with taxes payable in 2012) and $12,000 for assessment year 2012 (with taxes payable in 2013). For properties in the western and southern portions of the County, the Alternative General Homestead Exemption cannot exceed $26,000 for assessment year 2009 (with taxes payable in 2010), $20,000 for assessment year 2010 and 2011 (with taxes payable in 2011 and 2012, respectively), $16,000 for assessment year 2012 (with taxes payable in 2013) and $12,000 for assessment year 2013 (with taxes payable in 2014).

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.

The Disabled Veterans Homestead Exemption is 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, and certain other qualifying property owned by not-for-profit organizations.

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**", not to be confused with the Disabled Veterans' Homestead Exemption indicated above) provides disabled veterans an annual homestead exemption starting with assessment year 2007 and thereafter. Specifically, for assessment years 2007 through 2009, (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. Beginning with the assessment year 2010, those veterans with a service-connected disability of less than 69%, but at least 50%, are granted an exemption of $2,500. Additionally, beginning with the assessment year 2011, a disabled veteran receiving the Disabled Veterans' Standard Homestead Exemption may continue to do so if such veteran becomes a resident of a Nursing Home Care Act licensed facility or a facility granted by the U.S. Dept. of Veterans Affairs provided the residence is still occupied by such veteran's spouse, or the residence is vacant and still owned by such veteran. 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 (the "**Returning Year**"). 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. Further, beginning with assessment year 2010, the exemption period expands to two consecutive years – the Returning Year and the assessment year following the Returning Year. Finally, as of assessment year 2010, the exemption is available for property acquired and occupied on January 1 of year after the Returning Year.

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 except the date for tax year 2009, which was December 13, 2010. 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 delay in the second installment 2009 tax bill was a result of the decrease in the level of assessment for all properties, prompting a county-wide appeal by taxpayers.

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 (effective as of the 1994 assessment year) to non-home rule taxing districts in Cook County, including the Board. The effects of the Limitation Law are to limit or retard the growth in the amount of property taxes that can be extended for a non-home rule taxing body and to impose direct referendum requirements upon the issuance of certain types of general obligation bonds by such non-home rule taxing bodies.

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

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

The Limitation Law (i) authorizes the issuance of "limited bonds" payable from non-home rule taxing districts' "debt service extension base"; and (ii) excludes certain types of general obligation bonds, known as "alternate bonds" issued pursuant to Section 15 of the Debt Reform Act, from the direct referendum requirements of the Limitation Law. Pursuant to the provisions of this amendatory legislation and the Debt Reform Act, the Bonds are being issued as Alternate Bonds. The extension and collection of the Pledged Taxes, to the extent received, for the payment of debt service on 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. On July 22, 2009, a hearing pursuant to the Bond Issue Notification Act was held in connection with bonds to be issued pursuant to the 2009 Authorization, including the Bonds.

Property Tax Information

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

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Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2000-2009
(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				
2009	$18,311,981	$1,812,850	$10,720,244	$592,365	$31,437,440	3.3701	$84,592,286	$280,288,730	30.18%
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	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46

(1) Source: Cook County Assessor's Office. Information for 2010 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 2010 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 2009.

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

Levy Year[2]	Extension	First Year Collections Amount	First Year Collections Percent	Cumulative Collections[1] Amount	Cumulative Collections[1] Percent
2010	$ 2,118,541	$ 1,031,077	48.7%	$ 1,031,077	48.7%
2009	2,001,252	1,861,211	93.0	1,964,556	98.2
2008	2,001,751	1,863,630	93.1	1,969,310	98.4
2007	1,901,887	1,809,396	95.1	1,859,923	97.8
2006	1,874,750	1,644,937	87.7	1,811,716	96.6
2005	1,794,063	1,728,522	96.3	1,746,726	97.4
2004	1,716,111	1,565,982	91.3	1,682,561	98.0
2003	1,670,337	1,500,238	89.8	1,623,162	97.2
2002	1,614,473	1,548,369	95.9	1,578,539	97.8
2001	1,571,962	1,519,630	96.7	1,546,356	98.4

(1) Tax receivables net of Estimated Allowance for Uncollectible taxes (the "Allowance").
(2) The 2010 tax extensions year reflects collections through October 5, 2011. The 2010 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	2009
Tax Rates by Board Fund:										
Educational	$2.756	$2.712	$2.670	$2.258	$2.301	$2.142	$2.078	$2.377	$2.426	$2.204
School District Medicare (1)	0.047	0.031	0.017	0.000	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	0.148
PBC Operation and Maintenance (2)	0.640	0.685	0.609	0.565	0.576	0.565	0.521	0.000	0.000	0.000
PBC Lease Rentals	0.130	0.125	0.116	0.100	0.096	0.091	0.077	0.016	0.155	0.014
Board Subtotal	$3.714	$3.744	$3.562	$3.142	$3.104	$3.026	$2.697	$2.583	$2.472	$2.366
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	$1.098
Community College District	0.311	0.307	0.280	0.246	0.242	0.234	0.205	0.159	0.156	0.150
School Finance Authority	0.223	0.223	0.177	0.151	0.177	0.127	0.118	0.091	0.000	0.000
Chicago Park District	0.572	0.567	0.545	0.464	0.455	0.443	0.379	0.355	0.323	0.309
Water Reclamation District	0.415	0.401	0.371	0.361	0.347	0.315	0.284	0.263	0.252	0.261
Cook County	0.824	0.746	0.690	0.630	0.593	0.533	0.500	0.446	0.415	0.394
Cook County Forest Preserve	0.069	0.067	0.061	0.059	0.060	0.060	0.057	0.053	0.051	0.049
Other Unit Subtotal	$4.074	$3.948	$3.715	$3.291	$3.176	$2.955	$2.605	$2.411	$2.344	$2.260
TOTAL	$7.788	$7.692	$7.277	$6.433	$6.280	$5.981	$5.302	$4.994	$4.816	$4.630

Source: Cook County Clerk's Office – tax rates by levy year. Tax rates for 2010 are not yet available.

(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 EXEMPTION

General

Quarles & Brady LLP, Chicago, Illinois and McGaugh Law Group LLC, Chicago, Illinois, Co-Bond Counsel will deliver a legal opinion with respect to the federal income tax exemption applicable to the interest on the Bonds under existing law substantially in the following form:

> "The interest on the Bonds is excludable for federal income tax purposes from the gross income of the owners of the Bonds. The interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended (the "**Code**") on corporations (as that term is defined for federal income tax purposes) and individuals. However, for purposes of computing the alternative minimum tax imposed on corporations, the interest on the Bonds is included in adjusted current earnings. The Code contains requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be or continue to be excludable from gross income for federal income tax purposes. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Board has agreed to comply with all of those requirements. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Board comply with those requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds."

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

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors as to collateral federal income tax consequences.

From time to time legislation is proposed, and there are or may be legislative proposals pending in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether any proposal that could adversely affect the market value of the Bonds may be enacted. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Co-Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

Original Issue Discount

To the extent that the initial public offering price of certain of the Bonds is less than the principal amount payable at maturity, such Bonds ("**Discounted Bonds**") will be considered to be issued with original issue discount. The original issue discount is the excess of the stated redemption price at maturity of a Discounted Bond over the over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discounted Bonds were sold ("**issue price"**). With respect to a taxpayer who purchases a Discounted Bond in the initial public offering at the issue price and who holds such Discounted Bond to maturity, the full amount of original issue discount will constitute interest which is not includible in the gross income of the owner of such Discounted Bond for federal income tax purposes and such owner will not, subject to the caveats and provisions herein described, realize taxable capital gain upon payment of such Discounted Bond upon maturity.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Bond, on days that are determined by reference to the maturity date of such Discounted Bond. The amount treated as original issue discount on a Discounted Bond for a particular semiannual accrual period is generally equal to (a) the product of (i) the yield to maturity of such Discounted Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discounted Bond at the beginning of the particular accrual period if held by the original purchaser, and less (B) the amount of any interest payable on such Discounted Bond during the accrual period. The tax basis is determined by adding to the initial public offering price of such Discounted Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If a Discounted Bond is sold or exchanged between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

For federal income tax purposes, the amount of original issue discount that is treated as having accrued with respect to such Discounted Bond is added to the cost basis of the owner in determining gain or loss upon disposition of a Discounted Bond (including its sale, exchange, redemption, or payment at maturity). Amounts received upon disposition of a Discounted Bond that are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain.

The accrual or receipt of original issue discount on the Discounted Bonds may result in certain collateral federal income tax consequences for the owners of such Discounted Bonds. The extent of these collateral tax consequences will depend on the owner's particular tax status and other items of income or deduction. The Code contains additional provisions relating to the accrual of original issue discount. Owners who purchase Discounted Bonds at a price other than the issue price or who purchase such Discounted Bonds in the secondary market should consult with their own tax advisors with respect to the tax consequences of owning such Discounted Bonds. Under the applicable provisions governing the determination of state and local taxes, accrued interest on the Discounted Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year. Owners of Discounted Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Bonds.

Bond Premium

To the extent that the initial offering price of certain of the Bonds are more than the principal amount payable at maturity, such Bonds ("**Premium Bonds**") will be considered to have bond premium.

Any Premium Bond purchased in the initial offering at the issue price will have "amortizable bond premium" within the meaning of Section 171 of the Code. The amortizable bond premium of each Premium Bond is calculated on a daily basis from the issue date of such Premium Bond until its stated maturity date (or call date, if any) on the basis of a constant interest rate compounded at each accrual period (with straight line interpolation between the compounding dates). An owner of a Premium Bond that has amortizable bond premium is not allowed any deduction for the amortizable bond premium, rather the amortizable bond premium attributable to a taxable year is applied against (and operates to reduce) the amount of tax-exempt interest payments on such Premium Bond. During each taxable year, such owner must reduce its tax basis in such Premium Bond by the amount of amortizable bond premium that is allocable to the portion of such taxable year during which the holder held such Premium Bond. The adjusted tax basis in the Premium Bond will be used to determine taxable gain or loss upon a disposition (including the sale, exchange, redemption , or payment at maturity) of such Premium Bond.

Owners of Premium Bonds who did not purchase such Premium Bonds at the initial offering at the issue price should consult their own tax advisors with respect to the consequences of owning such Premium Bonds. Owners of Premium Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Premium Bonds.

RATINGS

The Bonds have been assigned the underlying ratings of "AA-" by Standard & Poor's, a Division of The McGraw Hill Companies, Inc. ("**Standard & Poor's**"), "A+" by Fitch Ratings ("**Fitch**") and "Aa3" by Moody's Investor Service ("**Moody's**") based on the credit of the Board.

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

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2010, 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 Public Financial Management, Inc. and Peralta Garcia Solutions, LLC (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 have reviewed certain legal documents, including this Official Statement, with respect to financial matters. Unless indicated to the contrary, the Financial Advisors have not independently verified the factual information contained in this Official Statement, but has relied on the information supplied by the Board and other sources.

UNDERWRITING

Jefferies & Company, Inc., as representative and on behalf of itself and the other underwriters listed on the cover page of this Official Statement (the "**Underwriters**"), has agreed to purchase the Bonds at an aggregate purchase price of $401,580,463.48 (representing an aggregate principal amount of $402,410,000.00 plus $1,228,608.30 of net original issue premium and less $2,058,144.82 of Underwriter's discount). The Bonds will be offered to the public at the prices as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering a Series of Bonds to the public.

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

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Quarles and Brady LLP, Chicago, Illinois, and McGaugh Law Group LLC, Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinion is included herein as **APPENDIX D**. Certain legal matters will be passed upon for the Board by Patrick J. Rocks, the Board's General Counsel, and by its special counsel, Charity and Associates, P.C., Chicago, Illinois, and for the Underwriters by their co-counsel, Thompson Coburn LLP, Chicago, Illinois, and Gonzalez, Saggio and Harlan, L.L.C., 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. Based on the Board's successive motions, the court has dismissed or precluded the filing of numerous ACTG claims. In its fourth amended complaint, ACTG's claims are based on approximately $172,000 in allegedly unpaid invoices, however ACTG's damages requests still include previously dismissed claims of lost profits and business opportunity calculations ($524,972 and $30,000,000 respectively). Board records provided to ACTG establish that invoices attached to the fourth amended complaint have been paid and, when all paid invoices are removed, the invoice-based claims total about $15,000. ACTG's claims against Unisys have been dismissed.

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. Price, et al., v. Board of Education (U.S. Dist. Court, N.D. Ill.), Case No. 11-CV-4463; Chicago Teachers Union v. Board of Education etc., Grievance Numbers 10-07-129 and 10-07-163. 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. The Board implemented another 467 teacher layoffs for reasons of financial exigency in July 2011 and the CTU includes them in the class of employees covered by this litigation. 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 appealed the ruling and the Seventh Circuit affirmed the district court's injunction, finding that tenured teachers did have a 14th Amendment due process right to demonstrate that they were qualified for vacancies and remanding the matter to the district court to amend the portion of the order requiring the Board to negotiate with CTU on the recall rule. Following the Board's petition for a review by the full panel, the Seventh Circuit vacated its order and asked the Supreme Court of Illinois to answer certified questions of Illinois law. The Supreme Court agreed to do so and those questions are currently being briefed.

In June 2011, CTU attorneys filed a state court action requesting certification of a class, and containing allegations that mirror those in Case No. 10-CV-4852 described above. The Board removed the case to federal court, and then had the case assigned to the same federal district judge handling Case No. 10-CV-4852.

In the IELRB proceeding (Case No. 2011-CA-0033-C), the IELRB's executive director recommended dismissal of the charges except with respect to a request for information. Subsequently, the IELRB reversed that decision and ordered that a complaint be issued and a trial conducted on whether the Board violated the Illinois Educational Labor Relations Act in the manner in which it implemented the layoffs. The trial on those charges began on August 24, 2011 and is expected to conclude in early 2012.

The grievances concerning the layoffs were tried before an impartial arbitrator on June 29 and 30, 2011. The stipulated issue is whether the teachers laid off from Central Office were entitled to the Reassigned Teachers Pool benefits. Post-hearing briefs were submitted on September 12, 2011.

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 Union v. Chicago Board of Education (IELRB Case No. 2012-CA-0009-C). CTU has also commenced unfair labor practice proceedings in which it has alleged that the Board has violated its duty to bargain in good faith and coerced or interfered with the employees' right to organize and act in concert for the mutual aid and protection. CTU claims that the Board's act of seeking statutory waivers of provisions of the collective bargaining agreement in order to implement a 90-minute longer school day at local schools violates the Board's duty to bargain to bargain with CTU. They also claim that the manner in which the votes were taken at schools was coercive in some cases in that incentives were promised. CTU seeks preliminary injunctive relief to stop waiver votes from occurring.

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 "**Pension 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 fiscal year 2010. The Pension Code requires the Pension 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 Pension 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 Pension 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 Pension Fund was not permitted to amend its certification letter after February 28. On July 1, 2010, the Pension 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 Pension Fund $40,635,883.26. The lawsuit echoes these numbers.

The Illinois Pension Code does not permit the Pension 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 Pension Fund certifies can never be based on actual receipts during the fiscal year to which a certification applies, the Pension 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 Pension Fund's original letter "certified." The trial court has denied the Pension Fund's summary judgment motion. The court also granted the Board's motion for summary judgment on August 19, 2011.

The Board anticipates that CTPF will appeal this ruling. At this juncture, the Board is unable to form an opinion on the outcome of this case. The Board is vigorously defending this litigation.

Recently Filed Litigation. The Board of Trustees of the Pension Fund filed suit against the Board and President Vitale on August 31, 2011, seeking a judgment declaring that, under sections 17–127.2 and 17–129(b) of the Illinois Pension Code, the Board was obligated to contribute the sum of $198,140,000 to the Pension Fund for fiscal year 2011, and violated those provisions by only contributing $165,617,600. Section 17–129(b)(vii) of the Illinois Pension Code, however, states that any contribution by the State to or for the benefit of the Pension Fund, including, without limitation, as referred to under section 17–127, shall be a credit against any contribution required to be made by the Board of Education. The Board contends that the Illinois Pension Code entitled it to a credit for a State of Illinois payment to the Pension Fund in the amount of approximately $32,500,000 and that it does not owe additional payments to the Pension Fund for fiscal year 2011.

CONTINUING DISCLOSURE UNDERTAKING

The Board will enter into a Continuing Disclosure Undertaking (the "**Undertaking**") for the Bonds 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 MSRB has designated its Electronic Municipal Market Access system ("**EMMA**") as the system to be used for continuing disclosure to investors.

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 for the Bonds, 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 2012 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," "— Other Post-Employment Benefits and Other Board Liabilities" and "— Teacher Pension Obligations." Except however, the information under the caption "— Teacher Pension Obligations" (except for the paragraph entitled "— *Recent Reports Regarding the Pension Fund*," and information expressly derived from the Comprehensive Annual Financial Reports of the Chicago Public Schools) is sourced primarily from documents published by the Pension Fund and/or parties other than the Board (such information is collectively referred to as the "Third-Party Source Pension Information") and the Board takes no responsibility for the accuracy or completeness of the Third-Party Source Pension Information. If the Third-Party Source Pension Information or any information contained therein is no longer publicly available or is not publicly available in a form or manner or by the time that the Annual Financial Information is required to be disseminated by the Board, the Board shall, as part of its Annual Financial Information for the year in which such a lack of availability arises, include a statement to that effect and state that it will promptly file such information as it becomes available.

The Undertaking for the Bonds 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 for the Bonds 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 for the Bonds that it will disseminate to the MSRB in a timely manner in accordance with the Rule the disclosure of the occurrence of an Event (as described below). Any reference to "material" means materiality as it is interpreted under the Securities Exchange Act of 1934, as amended. The "**Events**," certain of which may not be applicable to the Bonds, are:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults, if material;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions or other material events affecting the tax status of the Bonds;
(g) modifications to rights of Bondholders, if material;
(h) Bond calls, if material;
(i) tender offers;
(j) defeasances, release, substitution, or sale of property securing repayment of the Bonds, if material;
(k) rating changes;
(l) bankruptcy, insolvency, receivership or similar event of an obligated person,
(m) merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of an obligated person's assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; appointment of a successor or additional trustee, or the change of name of a trustee, if material;
(n) notices of failures to provide annual financial information on or before the date specified in the Continuing Disclosure Undertaking; and
(o) appointment of a successor or additional trustee or change of name of a trustee.

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 Co-Bond Counsel), or by the approving vote of the owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment; or

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

Termination of Undertaking

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

Dissemination Agent

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

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AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: /s/ Melanie A.J. Shaker
Melanie A.J. Shaker
Interim Chief Financial Officer

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APPENDIX A

Audited Financial Statements for Fiscal Year 2010

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McGladrey & Pullen, LLP
Certified Public Accountants

McGladrey

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, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPS' internal control over financial reporting. Accordingly, we express no such opinion. 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, 2010, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2010, on our consideration of the CPS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages A-2 through A-19 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, 2010

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2010

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, 2010. 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

At the end of the fiscal year, CPS' total fund balance was $1.19 billion, an increase of $133 million in comparison with the prior year. The increase is mainly due to the issuance of $802 million in debt offerings to fund the Capital Improvement Program. Total expenditures in the capital projects fund for FY2010 were $692 million.

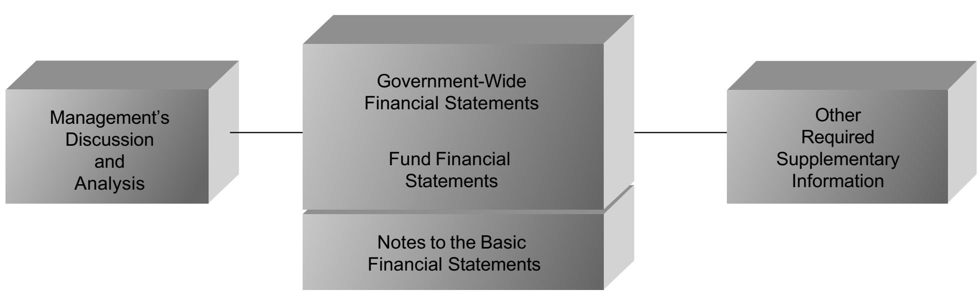
In the General Operating Fund, unreserved funds decreased from $311 million to $198 million, a decrease of $113 million. The decline is the direct result of the delay of State aid payments. The amount owed CPS from the State increased by $63 million, from $173 million in FY2009 to $236 million in FY2010. Of the $236 million due to CPS, $99 million was budgeted as revenue in FY2010. The current unreserved fund balance represents 4% of general operating fund expenditures.

In October 2010, Fitch downgraded its rating on CPS' outstanding general obligation bonds to "A+" from "AA-". This downgrade reflects CPS' weakened financial position as a result of the continued delay in state aid payments. Standard and Poor's and Moody's maintained their ratings of AA- and Aa2, respectively.

During fiscal year 2010, CPS implemented GASB 51 *"Accounting and Financial Reporting for Intangible Assets"* and GASB 53 *"Accounting and Financial Reporting for Derivative Instruments".* In connection with the adoption of GASB 53, net assets at June 30, 2009 were restated to a deficit of $491 million from a deficit of $446 million.

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			
	2010	2009 (as restated)	Difference	% Change
Current assets	$ 3,809	$ 3,702	$ 107	2.9%
Non-Current assets	5,640	5,149	491	9.5%
Total Assets	$ 9,449	$ 8,851	$ 598	6.8%
Current liabilities	$ 1,179	$ 1,153	$ 26	2.3%
Long-term liabilities	9,188	8,189	999	12.2%
Total Liabilities	$10,367	$ 9,342	$1,025	11.0%
Net Assets:				
Invested in capital assets net of related debt	$ 137	$ 30	$ 107	356.7%
Restricted for:				
Debt service	447	391	56	14.3%
Specific purposes	115	105	10	9.5%
Unrestricted	(1,617)	(1,017)	(600)	59.0%
Total Net Assets	$ (918)	$ (491)	$ (427)	87.0%

Total assets of $9.45 billion increased $598 million or 6.8% primarily due to larger accounts receivable balances and new school construction.

Non-current assets, increased $491 million primarily due to the increase of capital assets.

Long-term debt increased $683 million or 13.9%, due to the issuance of new debt to fund the capital improvement program. The total long-term portion of debt outstanding and capitalized leases was $4.9 billion in fiscal year 2009 and $5.6 billion in fiscal year 2010.

Accrued pension increased to $1.97 billion in fiscal year 2010 from $1.93 billion in fiscal year 2009, an increase of $38.8 million or 2%. 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 $949.4 million in fiscal year 2010 from $756.7 million in fiscal year 2009, an increase of $192.7 million, or 25.5%. 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 $522.2 million in fiscal year 2010 from $472.4 million in fiscal year 2009, an increase of $49.8 million or 10.5%. The year-end balance reflects increases in accrued sick pay, vacation pay, tort liabilities, and workers' compensation, of $39.7 million, $1.2 million, $0.5 million and $11.9 million respectively, and a decrease of $3.5 million in auto and general liability.

CPS' net assets decreased $427 million to ($918) million. Of this amount, $137 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of $562 million are reported separately to present legal constraints from debt covenants and enabling legislation. The ($1,617) 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, 2010.

The following table presents the changes in net assets from fiscal year 2009 to 2010:

Changes in Net Assets
(In Millions)

	Governmental Activities			
	2010	2009 (as restated)	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	$ 11	$ 13	$ (2)	−15.4%
Operating grants and contributions	1,377	1,251	126	10.1%
Capital grants and contributions	99	151	(52)	−34.4%
Total Program Revenues	$1,487	$1,415	$ 72	5.1%
General Revenues:				
Property taxes	$1,896	$1,937	$ (41)	−2.1%
Replacement taxes	152	188	(36)	−19.1%
State aid	1,533	1,604	(71)	−4.4%
Interest and investment earnings	13	44	(31)	−70.5%
Other	173	56	117	208.9%
Total General Revenues	$3,767	$3,829	$ (62)	−1.6%
Total Revenues	$5,254	$5,244	$ 10	0.2%
Expenses:				
Instruction	$3,507	$3,325	$ 182	5.5%
Support services:				
Pupil support services	438	409	29	7.1%
Administrative support services	202	233	(31)	−13.3%
Facilities support services	481	582	(101)	−17.4%
Instructional support services	524	512	12	2.3%
Food services	207	204	3	1.5%
Community services	51	56	(5)	−8.9%
Interest expense	258	258	—	0.0%
Other	13	9	4	44.4%
Total Expenses	$5,681	$5,588	$ 93	1.7%
Total Revenues under expenses	$ (427)	$ (344)	$ (83)	24.1%
Extraordinary item	$ —	$ 1	$ (1)	−100%
Change in Net Assets	$ (427)	$ (343)	$ (84)	24.5%
Beginning Net Assets	(491)	(148)	(343)	231.8%
Ending Net Assets	$ (918)	$ (491)	$(427)	87.0%

Net Assets at June 30, 2010 reflect a decrease of $427 million from the prior year or 87%. Revenues increased 0.2% or $10 million in FY2010 while expenses increased 1.7% or $93 million. The increases in expenses are primarily due to higher sick and vacation, pension and other postemployment costs.

Capital Assets

At June 30, 2010, CPS had $5.5 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 $438 million or 8.7% over the prior fiscal year.

(In millions)

	2010	2009	Difference	% Change
Land	$ 298	$ 284	$ 14	4.9%
Buildings	7,111	6,398	713	11.1%
Construction in progress	648	811	(163)	−20.1%
Equipment	157	159	(2)	−1.3%
Internally developed software	3	—	3	100.0%
Total Capital Assets	$ 8,217	$ 7,652	$ 565	7.4%
Less: Accumulated depreciation	(2,742)	(2,615)	(127)	4.9%
Total Capital Assets, net	$ 5,475	$ 5,037	$ 438	8.7%

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 July 2009, CPS issued $75,720,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009D) at a premium of $4,238,498. The proceeds from these bonds were used to refund the Series 2004DE bonds. The Board contributed $917,872 to pay for costs of issuance. As a result of the issuance, $82,482,920 was deposited in a trust with an escrow agent to purchase the Series 2004DE bonds upon the next remarketing. On July 30, 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.

In September 2009, CPS issued $518,210,000 in Unlimited Tax General Obligation Taxable Build America Bonds (Series 2009E). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $470,423,849 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues and Federal subsidy payments.

In September 2009, CPS issued $29,125,000 in Unlimited Tax General Obligation Bonds (Series 2009F) 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. As a result of the issuance, CPS recorded net proceeds of $28,589,164 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

In December 2009, CPS issued $254,240,000 in Unlimited Tax General Obligation Bonds Qualified School Construction Bonds (Series 2009G). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $251,721,700 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

In February 2010, CPS issued $205,965,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2010AB). CPS contributed $777,087 to pay for costs of issuance. The proceeds from these bonds were used to refund the Series 2004C-2 and Series 2005D-2 bonds. As a result of the issuance, $48,952,880 was deposited in a trust with an escrow agent to purchase the Series 2004C-2 bonds upon the next remarketing. CPS deposited $157,268,423 in a trust with an escrow agent to purchase the

Series 2005D-2 bonds upon its next remarketing. In February 2010, 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.

As of June 30, 2010, CPS had $5.7 billion in total debt, including accreted interest and capitalized lease obligations outstanding versus $5.08 billion last year, an increase of 12%. 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, 2009, the funded ratio of the Teachers' Pension Fund was 73.3%. CPS has recorded an estimated liability of $1.97 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 $318.2 million employer contribution to the Teachers' Pension Fund in FY2010; of this amount, a total of $61.3 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 2010, as in previous fiscal years, CPS paid a portion, 7%, or $38.5 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.

Short-Term Pension Funding Relief

In April 2010, the Governor signed into law a bill passed by the General Assembly that provides short-term pension funding relief for CPS. Under this legislation (Public Act 96-0889), CPS will make pension contributions to the Teachers' Pension Fund in the amount of the "employer's normal cost" in FY2011 through FY2013 instead of required pension contributions to bring the Teachers' Pension Fund's funded ratio to 90% by FY2045. This resulted in a significant reduction of the FY2011 required pension contribution from $587 million to $187 million. Beginning in FY2014, CPS will be required to make contributions to the Teachers' Pension Fund to bring the funded ratio to 90% by FY2059.

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, 2010, as compared with June 30, 2009. 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)

	2010 Amount	2009 Amount	2010 Percent Of Total	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Revenues:					
Property taxes	$2,047	$1,897	33.5%	$ 150	7.9%
Replacement taxes	153	188	2.6%	(35)	−18.6%
State aid	1,552	1,512	25.4%	40	2.6%
Federal aid	1,180	1,125	19.3%	55	4.9%
Investment earnings	12	44	0.2%	(32)	−72.7%
Other	360	253	5.9%	107	42.3%
Subtotal	$5,304	$5,019	86.9%	$ 285	5.7%
Other financing sources	801	1	13.1%	800	80000.0%
Total	$6,105	$5,020	100.0%	$1,085	21.6%
Expenditures:					
Instruction	$2,899	$2,773	48.5%	$ 126	4.5%
Pupil support services	416	390	7.0%	26	6.7%
General support services	1,011	1,058	17.0%	(47)	−4.4%
Food services	197	195	3.3%	2	1.0%
Community services	50	56	0.8%	(6)	−10.7%
Teachers' pension	294	237	4.9%	57	24.1%
Capital outlay	706	672	11.8%	34	5.1%
Debt service	387	302	6.5%	85	28.1%
Other	12	9	0.2%	3	33.3%
Total	$5,972	$5,692	100.0%	$ 280	4.9%
Change in Fund Balance	$ 133	$ (672)			

General Operating Fund

The general operating fund supports day-to day operation of educational and related activities. As of June 30, 2010, the general operating fund ended with expenditures exceeding revenues and transfers by $102 million. For the last fiscal year, expenditures exceeded revenues and transfers by $143 million. The main driver of the operating deficit for two consecutive years is the delay in State aid payments. At the end of June 30, 2010, CPS was due $236 million compared to $173 million last year. Total operating revenues for FY2010 were higher than the prior year by $194 million, while total expenditures increased by $153 million over FY2010.

Revenues:

Revenues and Other Financing Sources (Millions of Dollars)

	2010 Amount	2009 Amount	2010 Percent of Total	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Property taxes	$2,036	$1,867	42.5%	$169	9.1%
Replacement taxes	97	133	2.0%	(36)	−27.1%
State aid	1,368	1,333	28.5%	35	2.6%
Federal aid	1,160	1,123	24.2%	37	3.3%
Investment earnings	3	22	0.1%	(19)	−86.4%
Other	112	102	2.3%	10	9.8%
Subtotal	$4,776	$4,580	99.6%	$196	4.3%
Other financing sources	18	20	0.4%	(2)	−10.0%
Total	$4,794	$4,600	100.0%	$194	4.2%

Property tax revenues

Property tax revenues increased by $169 million over the prior year for two reasons. First a new state law (PA96-0490) changed the amount of the 2010 first installment property tax bills from the historical 50% to 55% of prior-year total taxes. This change resulted in a one-time acceleration of revenues of $96 million. Second, CPS increased property taxes by 0.7% and captured all property tax growth from new property, which contributed to an increase of $73 million.

Personal property replacement taxes (PPRT)

PPRT derives its revenues from an additional State income tax on corporations and partnerships. Corporate income-tax receipts are closely tied to corporate profits. The recession in 2008 and 2009 depressed corporate profits significantly and the decrease of $36 million in PPRT receipts reflects this economic condition.

State revenues

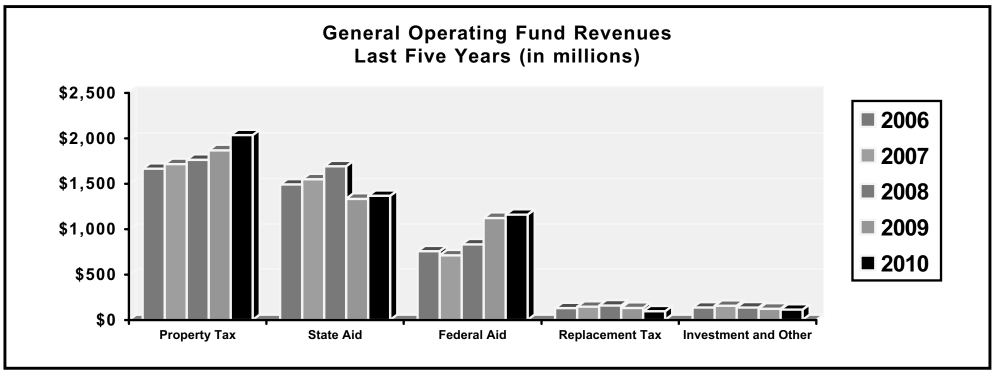
The increase of $35 million in State Aid combined several factors. General state aid (GSA) increased by $115 million for two reasons. First, the State substituted less GSA with federal stimulus funds. In FY2010 the State replaced GSA $167 million compared to $260 million last year, resulting in an increase of $93 million. Second, GSA grew by $22 million over FY2009 due to increases in poverty counts. These increases were offset by reductions and elimination of various state grants and programs which amounted to a total of $80 million. Included in these reductions were state teacher pension by $38 million, ADA block grant by $10 million and bilingual education by $19 million. State programs eliminated in FY10 were Class-Size Reduction, Healthy Kids/Healthy Minds and Charter School Transition Impact aid, reducing revenue by $9 million.

Federal revenues

The increase of $37 million in federal revenues is primarily due to the following reasons. In FY2010, CPS received $117 million of stimulus categorical grants and $279 million of federal State Fiscal Stabilization funds (SFSF), compared to $260 million of SFSF in FY2009; in addition, a combined increase of $15 million occurred in various small grants. This increase of $151 million in federal stimulus revenues in FY2010 was offset by decreases in other grants. Compared with the FY2009 level, federal Title I experienced a decrease of $58 million; revenues from the Headstart programs declined by $20 million; Improving Teacher Quality grant generated only $31 million, $20 million less than the FY2009 amount; and Medicaid revenues declined by $16 million.

Investment earnings

Income from investing operating cash declined from $22 million in FY2009 to $3 million in FY2010. This $19 million reduction results from the Federal Reserve's continued policy of maintaining interest rates at its historical low of 0% to 0.25% to boost the economic recovery. The recession ended in June 2009 but the U.S. economic growth has been sluggish. Consequently, the Federal Reserve is expected to keep the interest rate close to zero percent for another year. In addition, CPS maintained lower cash balances in FY2010 due to the delay in State aid payments.



Expenditures:
(Millions of Dollars)

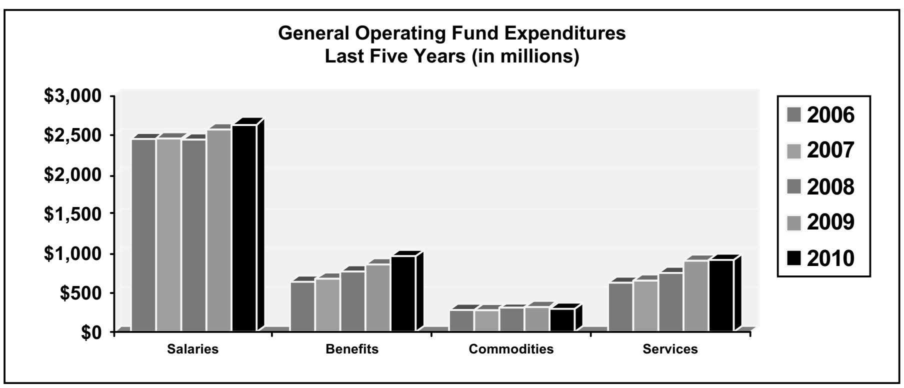
	2010 Amount	2009 Amount	2010 Percent Of Total	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Salaries	$2,630	$2,573	53.7%	$ 57	2.2%
Benefits	963	856	19.7%	107	12.5%
Services	914	904	18.7%	10	1.1%
Commodities	291	314	5.9%	(23)	−7.3%
Other	98	96	2.0%	2	2.1%
Total	$4,896	$4,743	100.0%	$153	3.2%

Salaries increased by $57 million, a direct result of the 4% contractual salary increase and normal step increases, offset partially by a reduction in workforce.

Benefit costs grew by $107 million over the previous year primarily because of $86 million increases in pension obligations, $12 million in healthcare costs and $7 million in unemployment costs.

Services were $10 million higher than last year. The increase in expenditures is a combination of higher tuition payments to Charter schools of $70 million due to increased student enrollment and a reduction in professional services and tuition of $59 million and $1 million, respectively.

Commodities were $23 million lower than last year primarily due to a decrease in both energy costs and textbooks of $14 million and $16 million, respectively. This decrease was offset by higher supplies and food costs of $3.5 million each.



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. In fiscal year 2010, CPS issued Series 2009E, 2009F and 2009G bonds generating $757 million of net proceeds to fund the capital improvement program.

Revenues and Other Financing Sources
(Millions of Dollars)

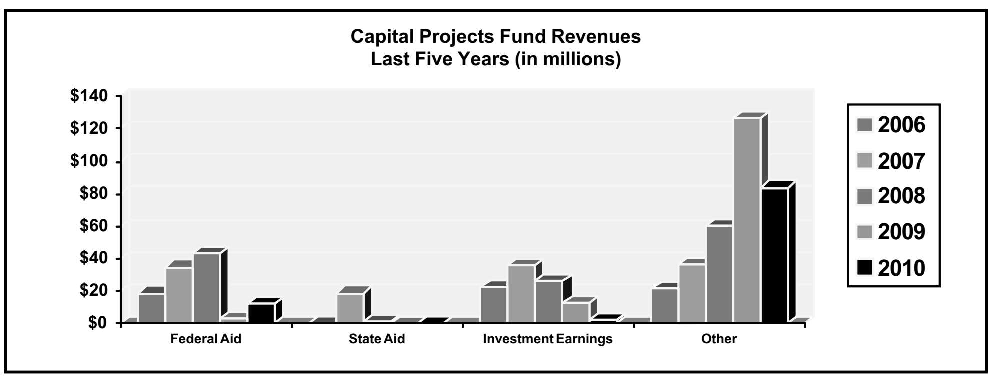
	2010 Amount	2009 Amount	2010 Percent Of Total	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Federal aid	$ 12	$ 3	1.4%	$ 9	300.0%
Investment earnings	2	13	0.2%	(11)	−84.6%
Other	83	126	9.8%	(43)	−34.1%
Subtotal	$ 97	$142	11.4%	$ (45)	−31.7%
Other financing sources	757	1	88.6%	756	75600.0%
Total	$854	$143	100.0%	$711	497.2%

Federal aid was $9 million higher than last year due to an increase in E-rate revenue.

Investment earnings declined by $11 million, a direct result of the low interest-rate environment.

Other revenues decreased $43 million over fiscal year 2009. One of the main factors accounting for the reduction in revenue is that fewer Modern Schools Across Chicago (MSAC) projects were completed during fiscal year 2010 and timing of expenditure reimbursements.

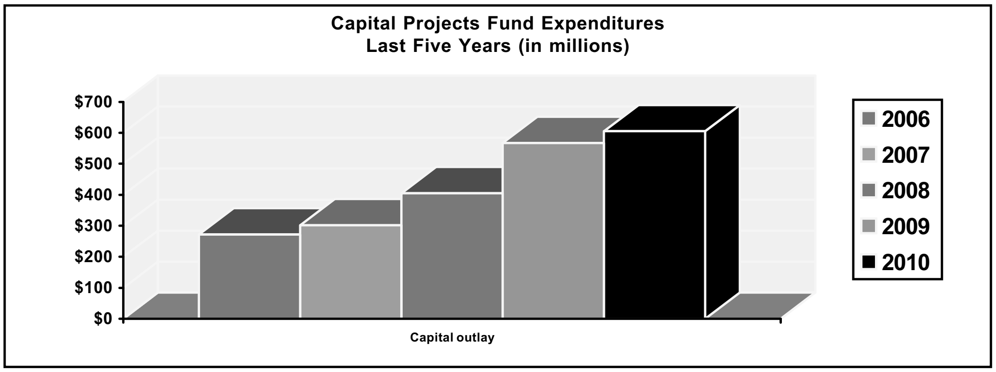
Other financing sources reflects a net increase of $756 million due to the issuance of bonds Series 2009E, 2009F and 2009G in the amount of $802 million, and an operating transfer of $46 million from the capital projects fund to the debt service fund for capitalized interest.



Expenditures:
(Millions of Dollars)

	2010 Amount	2009 Amount	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Capital Outlay	$692	$648	$44	6.8%

Capital Outlay increased by $44 million due to the continuation of the Capital Improvement Program. In FY2010, CPS completed four new schools, one replacement school, four additions, and one hundred seventeen renovation projects.



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.

Revenues and Other Financing Sources (Millions of Dollars)

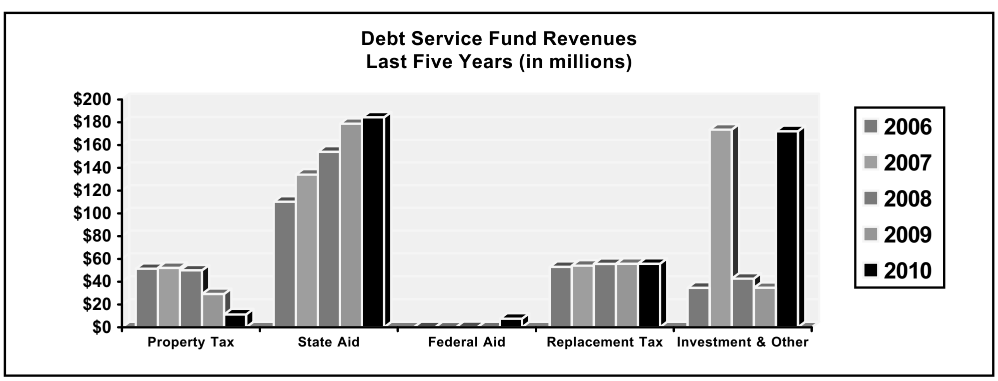
	2010 Amount	2009 Amount	2010 Percent Of Total	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Property taxes	$ 11	$ 29	2.4%	$ (18)	−62.1%
Replacement taxes	56	55	12.2%	1	1.8%
State aid	184	179	40.3%	5	2.8%
Federal aid	8	—	1.8%	8	100.0%
Investment earnings	7	10	1.5%	(3)	−30.0%
Other	165	25	36.1%	140	560.0%
Subtotal	$431	$298	94.3%	$133	44.6%
Other financing sources (uses)	26	(21)	5.7%	47	223.8%
Total	$457	$277	100.0%	$180	65.0%

Property tax revenues used for the PBC lease payments decreased by $18 million from the prior year because of the timing of the tax abatement. To reduce the tax burden on property owners, CPS abated $40 million of the property tax levy for the PBC leases in fall 2008 and 2009 each, while the third abatement was done in spring 2010. Consequently, the FY2010 property tax allocation for PBC payments was adjusted for both fall and spring receipts, while the FY2009 tax allocation was adjusted only for the fall collections.

State aid reflects General State Aid amounts required to service alternate bonds. The increase was only $5 million over FY2009 because CPS utilized capitalized interest from new bond issues to reduce debt service payments.

Other revenue accounts for revenues from the City of Chicago based on the inter-governmental agreements (IGA) to pay for capital bonds issued in the late 1990s. The large increase in this source reflects primarily the first full year's tax collection because of the expiration of the School Finance Authority in 2010 and receipts of prior-year's IGA revenues in FY2010. Additionally, there was a transfer of $27.8 million of residual balance to this account when the School Finance Authority expired at June 1, 2010.

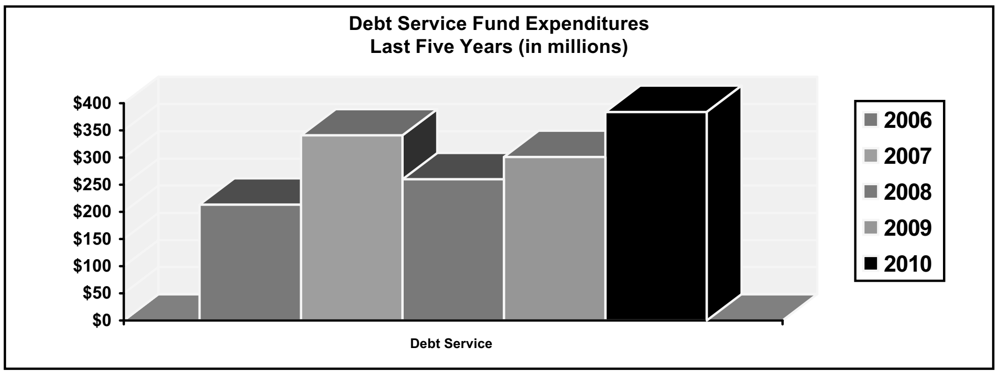
Other financing sources increased by $47 million primarily due to an operating transfer from the capital projects fund to the debt service fund for capitalized interest.



Expenditures:
(Millions of Dollars)

	2010 Amount	2009 Amount	Increase (Decrease) From 2009	Percent Increase (Decrease) from 2009
Debt service	$384	$301	$83	27.6%

Debt Service costs
Principal payments were $59 million higher than last year and interest payments increased by $24 million.



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.

General Operating Fund Budget and 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 2010 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, 2010.

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

	FY 2010 Approved Budget	Transfers In/(Out)	Final Appropriations	FY 2010 Actual	Variance
Revenues:					
Property taxes	$2,065	$ —	$2,065	$2,036	$ (29)
Replacement taxes	106	—	106	97	(9)
State aid	1,467	—	1,467	1,368	(99)
Federal aid	1,472	—	1,472	1,160	(312)
Investment earnings	6	—	6	3	(3)
Other	106	—	106	112	6
Subtotal	$5,222	$ —	$5,222	$4,776	$(446)
Other financing sources	—	—	—	18	18
Total	$5,222	$ —	$5,222	$4,794	$(428)
Expenditures:					
Salaries	$2,637	$ 75	$2,712	$2,630	$ (82)
Benefits	1,013	(1)	1,012	963	(49)
Services	807	128	935	914	(21)
Commodities	365	(14)	351	291	(60)
Other fixed charges	506	(188)	318	98	(220)
Total	$5,328	$ —	$5,328	$4,896	$(432)
Change in Fund Balance	$ (106)			$ (102)	

The General Operating Fund ended FY2010 with a deficit of $102 million which is very close to the budgeted deficit of $106 million. The macro-economic conditions in FY2010 were similar to what the budget assumed and there were no unusual events that negatively affected CPS' financial performance other than the State's dire fiscal situation. Local revenues were on par with budget. State revenues were lower than the budget by $99 million because of a five month lag in state aid payments. At year end, the State owed CPS $236 million compared with $173 million in FY2009. Federal revenues were much lower than the budget primarily because CPS was required to budget the full amount of the federal stimulus grants, although CPS planned to use the funds over two years. Major budget-to-actual variances are described below:

Property tax revenues were $29 million lower than the budget because collection rates in spring 2010 were slightly lower than last year's. Property tax receipts have not shown any negative effect of the depressed real estate market and high foreclosures in Chicago.

Replacement tax revenue was $9 million lower than budget. The budget assumed a decline of 20% from the prior year but the actual receipts decreased by 27% as a result of the recession and its effect on corporate income taxes.

State revenues were $99 million lower than budget for the following two primary reasons. First, the State could not pay its FY2010 obligations of $236 million to CPS, which was $63 million higher than $173 million that the State owed CPS in the previous year; the State paid $173 million of prior-year obligations to CPS in FY2010. Second, the FY2010 budget assumed that the State would replace the General State Aid with $234 million of federal stimulus funds, instead, the State replaced $167 million of the General State Aid to CPS and $112 million for State Pre-School with federal stimulus funding, resulting in a net decrease in state revenues of $45 million compared with the budget. This decrease is offset by a combined increase of $9 million in other smaller state grants.

Federal revenues were $312 million lower than the budget for several reasons. First, CPS budgeted $262 million for the two-year stimulus ARRA Title I, but spent $73 million in the first year, which was $189 million lower than the budget. Second, several grant applications were budgeted but not awarded, including the ARRA School Improvement, ARRA Education Technology and the Race to the Top grants. Third, several programs had lower grant amounts or spending than was budgeted including Head-start, the regular Title I afterschool and summer programs and Improving Teacher Quality (Title IIA). Fourth, Medicaid reimbursement revenues were below budget due to late payments. These decreases are partially offset by federal State Fiscal Stabilization funds that the State disbursed instead of General State Aid and Preschool.

Investment earnings and other revenue were $3 million higher than budget. The average investment earnings on money market funds, agency notes, and commercial paper were budgeted at 0.5% per annum but actual interest rates were about 0.3% because the Federal Reserve kept the interest rates close to zero percent. As a result, investment earnings were lower than the budget by $3 million. Offsetting this decrease was the one-time revenue of $12.6 million from seven tax increment financing districts that expired in December, 2008.

Actual General Operating Fund expenditures were $432 million under budget. The variance is primarily due to:

Salary expenditure was under budget by $82 million or 3% due to staff reduction and lower costs in grant funded activities such as summer and afterschool programs.

Benefit costs were under budget by $49 million. Favorable variances occurred in Teachers pension, career service pension, hospitalization costs, and Medicare of $34 million, $2 million, $9 million and $4 million, respectively

Services expenditure was under budget by $21 million. The variance is primarily attributed to a decrease in SES tutoring services and transportation costs.

Commodities expenditure was lower than budget by $60 million due to savings in energy costs of $6 million and less spending on supplies, food and textbooks of $30 million, $14 million and $10 million, respectively.

Other fixed charges expenditure was under budget by $220 million because the contingency budget set aside for grants was not required, primarily because of $189 million of stimulus ARRA Title I grant that is now appropriated for the second year of the grant for FY2011 programs. In addition, other potential federal grants were not received.

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.

In August 2010, the Board adopted a balanced budget for fiscal year 2011 that reflected total resources, including $244.6 million of available fund balances, and appropriations of $5.28 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, 2010

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and investments	$ 857,002
Cash and investments in escrow	951,546
Cash and investments held in school internal accounts	31,647
Property taxes receivable, net of allowance	906,944
Other receivables:	
Replacement taxes	22,829
State aid, net of allowance	807,665
Federal aid	156,023
Other, net of allowance	40,209
Other assets	34,971
Total Current Assets:	$ 3,808,836
Non-current Assets:	
Land and construction in progress	946,375
Buildings and improvements, equipment, and software, net of accumulated depreciation	4,528,357
Deferred outflow of resources	164,977
Total Non-current Assets:	$ 5,639,709
Total Assets	$ 9,448,545
LIABILITIES:	
Current Liabilities:	
Accounts payable	$ 347,225
Accrued payroll and benefits	582,653
Amount held for student activities	31,647
Other accrued liabilities	9,124
Unearned revenue	26,254
Interest payable	20,158
Current portion of long-term debt and capitalized lease obligations	162,188
Total Current Liabilities:	$ 1,179,249
Long-term liabilities, net of current portion:	
Debt, net of premiums and discounts	5,269,344
Capitalized lease obligations	332,475
Derivative instrument liability	169,059
Swaption borrowing payable	38,143
Other accrued liabilities	189
Pension	1,968,685
Other postemployment benefits	949,371
Other benefits and claims	460,299
Total Long-term liabilities:	$ 9,187,565
Total Liabilities	$10,366,814
NET ASSETS:	
Invested in capital assets, net of related debt	$ 137,353
Restricted for:	
Debt service	446,933
Donations	5,825
Enabling legislation	109,163
Unrestricted	(1,617,543)
Total Net Assets	$ (918,269)

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, 2010

(Thousands of Dollars)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$3,507,221	$ 4,308	$ 643,628	$63,687	$(2,795,598)
Support services:					
Pupil support services	438,164	—	47,659	9,150	(381,355)
Administrative support services	201,908	—	83,201	4,217	(114,490)
Facilities support services	481,245	—	178,713	8,474	(294,058)
Instructional support services	523,851	—	203,340	9,513	(310,998)
Food services	207,127	6,881	172,345	3,196	(24,705)
Community services	50,879	—	47,858	817	(2,204)
Interest expense	258,360	—	—	—	(258,360)
Other	12,919	—	—	—	(12,919)
Total Governmental Activities	$5,681,674	$11,189	$1,376,744	$99,054	$(4,194,687)

General revenues:	
Taxes:	
Property taxes	$1,896,265
Replacement taxes	152,497
Non-program state aid	1,532,679
Interest and investment earnings	12,734
Other	173,130
Total general revenues	$3,767,305
Change in net assets	$ (427,382)
Net assets — beginning (restated)	(490,887)
Net assets — ending	$ (918,269)

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, 2010

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
ASSETS:				
Cash and investments	$ 754,727	$ —	$102,275	$ 857,002
Cash and investments in escrow	5,901	538,063	407,582	951,546
Cash and investments held in school internal accounts	31,647	—	—	31,647
Receivables:				
Property taxes, net of allowance	901,451	—	5,493	906,944
Replacement taxes	22,829	—	—	22,829
State aid, net of allowance	807,645	20	—	807,665
Federal aid	154,833	1,190	—	156,023
Other, net of allowance	9,224	28,801	2,184	40,209
Due from other funds	278,509	1,133	39,982	319,624
Other assets	4,595	—	—	4,595
Total Assets	$2,971,361	$569,207	$557,516	$4,098,084
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	$ 280,197	$ 55,633	$ 11,395	$ 347,225
Accrued payroll and benefits	520,769	—	—	520,769
Amount held for student activities	31,647	—	—	31,647
Due to other funds	41,115	237,622	40,887	319,624
Deferred property tax revenue	893,286	—	5,467	898,753
Other deferred/unearned revenue	779,732	12,584	—	792,316
Total Liabilities	$2,546,746	$305,839	$ 57,749	$2,910,334
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	$ 111,166	$229,522	$ —	$ 340,688
Reserved for restricted donations	5,825	—	—	5,825
Reserved for specific purposes	109,163	—	—	109,163
Reserved for debt service	—	—	375,211	375,211
Unreserved	198,461	33,846	124,556	356,863
Total Fund Balances	$ 424,615	$263,368	$499,767	$1,187,750
Total Liabilities and Fund Balances	$2,971,361	$569,207	$557,516	$4,098,084

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, 2010

(Thousands of Dollars)

Total fund balances — governmental funds		$ 1,187,750
Certain costs are an expenditure in the fund financial statements in the year of issuance, but are an asset that is amortized over the life of the bonds in the government-wide financial statements. The Statement of Net Assets includes these amounts as other assets.		
Deferred charges — bond issuance costs		30,376
Certain differences arise in the government-wide financial statements when accounting for derivatives. The Statement of Net Assets includes these amounts as other assets.		
Deferred outflow of resources		164,977
The cost of capital assets (land, buildings and improvements, equipment and software) 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 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		8,216,931
Accumulated depreciation		(2,742,199)
Liabilities applicable to the CPS' governmental activities that are not due and payable in the current period and are not reported as fund liabilities. Debt, interest payable on debt and other long-term obligations not recorded in the governmental funds but reported in the Statement of Net Assets include the following:		
Other accrued liabilities	$ (9,124)	
Debt, net of premiums and discounts	(5,402,517)	
Capitalized lease obligations	(361,490)	
Pension	(1,968,685)	
Other postemployment benefits	(949,371)	
Other benefits and claims	(522,183)	
		(9,213,370)
Interest payable		(20,158)
Arbitrage liability — long term		(189)
Swaption borrowing payable		(38,143)
Derivative instrument liability		(169,059)
Revenues that have been deferred in the governmental funds because they are not available but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		898,753
Other deferred revenue		766,062
Net Assets		$ (918,269)

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, 2010

With Comparative Amounts for the Fiscal Year Ended June 30, 2009

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2010	Total Fiscal Year Ended June 30, 2009
REVENUES:					
Property taxes	$2,035,938	$ —	$ 11,225	$2,047,163	$1,896,540
Replacement taxes	96,816	—	55,681	152,497	188,503
State aid	1,367,797	—	184,279	1,552,076	1,511,886
Federal aid	1,160,412	12,275	7,461	1,180,148	1,125,580
Interest and investment earnings	3,084	1,978	7,421	12,483	43,693
Other	111,985	83,106	164,570	359,661	253,376
Total Revenues	$4,776,032	$ 97,359	$ 430,637	$5,304,028	$5,019,578
EXPENDITURES:					
Instruction	$2,898,855	$ —	$ —	$2,898,855	$2,773,440
Pupil support services	416,502	—	—	416,502	390,399
Administrative support services	191,927	—	—	191,927	222,908
Facilities support services	385,726	—	—	385,726	407,332
Instructional support services	432,984	—	—	432,984	427,432
Food services	196,828	—	—	196,828	194,603
Community services	50,331	—	—	50,331	56,003
Teacher's pension and retirement benefits	294,424	—	—	294,424	237,011
Capital outlay	13,927	691,764	—	705,691	672,412
Debt service	2,710	—	383,887	386,597	302,206
Other	11,928	—	—	11,928	8,504
Total Expenditures	$4,896,142	$ 691,764	$ 383,887	$5,971,793	$5,692,250
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	$ (120,110)	$(594,405)	$ 46,750	$ (667,765)	$ (672,672)
OTHER FINANCING SOURCES (USES):					
Gross amounts from debt issuances	$ —	$ 801,575	$ 281,685	$1,083,260	$ 225,675
Premiums	—	2,221	4,238	6,459	—
Insurance proceeds	—	—	—	—	1,155
Sales of general capital assets	—	—	—	—	91
Payment to refunded bond escrow agent	—	—	(288,704)	(288,704)	(226,408)
Transfers in/(out)	17,851	(46,760)	28,909	—	—
Total other financing sources (uses)	$ 17,851	$ 757,036	$ 26,128	$ 801,015	$ 513
NET CHANGE IN FUND BALANCES	$ (102,259)	$ 162,631	$ 72,878	$ 133,250	$ (672,159)
Fund Balances, beginning of period	526,874	100,737	426,889	1,054,500	1,726,659
Fund Balances, end of period	$ 424,615	$ 263,368	$ 499,767	$1,187,750	$1,054,500

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, 2010

(Thousands of Dollars)

Total net change in fund balances — governmental funds		$ 133,250
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	$ 625,159	
Depreciation expense	(187,104)	
		438,055
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets		(1,083,260)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets		431,620
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities however, interest cost is recognized as the interest accrues, regardless of when it is due		(22,493)
Government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities		1,645
Since some property taxes and grants will not be collected for several months after 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. The following represents the change in related deferred revenue balances.		
Property taxes		(150,897)
Grants		100,873
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. The following represents the change during the year for these obligations.		
Pollution remediation obligation		6,118
Legal settlements		(500)
Sick pay		(39,666)
Vacation pay		(1,201)
Workers' compensation		(11,886)
General and automobile liability		3,468
Net pension obligation		(38,800)
Other postemployment benefits — Teacher		(192,718)
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		(990)
Change in Net Assets		$ (427,382)

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, 2010

(Thousands of Dollars)

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
REVENUES:					
Property taxes	$2,065,070	$ —	$2,065,070	$2,035,938	$ (29,132)
Replacement taxes	105,820	—	105,820	96,816	(9,004)
State aid	1,466,617	—	1,466,617	1,367,797	(98,820)
Federal aid	1,472,185	—	1,472,185	1,160,412	(311,773)
Interest and investment income	5,600	—	5,600	3,084	(2,516)
Other	106,150	—	106,150	111,985	5,835
Total Revenues	$5,221,442	$ —	$5,221,442	$4,776,032	$(445,410)
EXPENDITURES:					
Salaries —					
Teachers	$2,028,831	$ 76,591	$2,105,422	$2,026,257	$ 79,165
Career services	608,081	(1,639)	606,442	604,042	2,400
Commodities —					
Energy	90,978	(6,525)	84,453	78,682	5,771
Food	106,930	325	107,255	93,088	14,167
Textbooks	99,532	(18,996)	80,536	70,596	9,940
Supplies	66,521	11,765	78,286	48,046	30,240
Other	676	—	676	948	(272)
Services —					
Professional fees	345,309	67,502	412,811	381,851	30,960
Charter schools	270,000	49,116	319,116	326,322	(7,206)
Transportation	100,968	16,262	117,230	109,349	7,881
Tuition	73,980	(12,679)	61,301	62,568	(1,267)
Telephone and telecommunications	4,596	660	5,256	18,199	(12,943)
Other	11,663	8,008	19,671	15,688	3,983
Equipment — Educational	16,965	22,901	39,866	33,661	6,205
Building and sites —					
Repairs and replacements	33,121	2,005	35,126	31,854	3,272
Capital outlay	—	12	12	10	2
Fixed charges —					
Teachers' pension	510,923	(1,576)	509,347	475,628	33,719
Career service pension	97,853	944	98,797	96,913	1,884
Hospitalization and dental insurance	329,981	(9,470)	320,511	311,048	9,463
Medicare	37,337	1,103	38,440	34,826	3,614
Unemployment compensation	10,351	5,833	16,184	16,000	184
Workers compensation	26,954	1,923	28,877	28,244	633
Rent	12,970	(942)	12,028	12,093	(65)
Debt service	2,710	—	2,710	2,710	—
Other	440,641	(213,123)	227,518	17,519	209,999
Total Expenditures	$5,327,871	$ —	$5,327,871	$4,896,142	$ 431,729
REVENUES (LESS THAN) EXPENDITURES	$ (106,429)	$ —	$ (106,429)	$ (120,110)	$ (13,681)
OTHER FINANCING SOURCES					
Transfers in	$ —	$ —	$ —	$ 17,851	$ 17,851
Total other financing sources	$ —	$ —	$ —	$ 17,851	$ 17,851
NET CHANGE IN FUND BALANCE	$ (106,429)	$ —	$ (106,429)	$ (102,259)	$ 4,170
Fund Balance, beginning of period	526,874	—	526,874	526,874	—
Fund Balance, end of period	$ 420,445	$ —	$ 420,445	$ 424,615	$ 4,170

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Education of the City of Chicago, 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 2010, CPS adopted the following GASB Statements:

- GASB 51, *Accounting and Financial Reporting for Intangible Assets.* Please refer to the Capital Assets section of Note 1 and Note 6 for required disclosures. This statement established accounting and financial reporting requirements for intangible assets to reduce 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.* This statement addressed the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. In connection with adoption of this statement, net assets at June 30, 2009, have been reduced by $44.5 million. Refer to Notes 10 and 15 for required disclosures.

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

- GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* will be 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.
- GASB 57, OPEB *Measurements by Agent Employers and Agent Multiple-Employer Plans,* will be effective for CPS with its year ended June 30, 2012. This statement addresses issues related to the use of the alternative measure method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- GASB 59, *Financial Instruments Omnibus,* will be effective for CPS with its year ended June 30, 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Description of Government-Wide Financial Statements

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

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

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, claims and judgments, other postemployment benefits, net pension obligations, and pollution remediation obligations, are recorded only when payment is due.

Funds

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

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
American Recovery and Reinvestment Act of 2009 (ARRA)
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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

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 2009 property taxes were levied for fiscal year 2010 in December 2009, and were billed in fiscal year 2010. In 2010, the installment due dates were March 2 and December 13. 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. In FY2010, CPS implemented GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets* reporting internally developed software with a capitalization threshold of $75,000 or more.

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

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

Beginning in fiscal year 2005, CPS implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle. There were no capital asset impairments during fiscal year 2010.

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:

Assets	Years
Buildings and building improvements	25-50
Administrative software/systems	20
Internally developed software	3
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. Please refer to Note 11 for accruals.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Swaps

CPS enters into interest rate swap agreements to modify interest rates on outstanding debt. CPS reported the swaps according with GASB Statement No. 53, *''Accounting and Financial Reporting for Derivative Instruments''.* Please refer to Notes 10 and 15 for required disclosures.

Fund Balances and Net Assets

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

The Statement of Net Assets includes the following:

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

Restricted for 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

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CPS' financial statements for the year ended June 30, 2009, from which the summarized information was derived.

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

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.

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 2010. 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 then 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.

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

Legal limitations on tax rates and the rates extended in calendar years 2010 and 2009 are shown below.

	Maximum 2010 Legal Limit	Tax Rates Extended Per $100 of EAV 2010	2009
General Operating Fund:			
Educational	(A)	$2.204	$2.426
Workers' and Unemployment Compensation/Tort Immunity	(B)	.148	.031
Debt Service Fund:			
Public Building Commission Leases Program	(C)	.014	.015
		$2.366	$2.472

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):

	Fund Financial Statements	Government Wide-Financial Statements
Revenues:		
General State Aid Unrestricted	$ 783,177	$ 783,177
Supplementary General State Aid	218,600	218,600
General Education Block Grant	68,753	48,972
Educational Services Block Grant	421,346	478,773
Other Restricted State Revenue	60,200	86,058
Total State Aid	$1,552,076	$1,615,580
Program Revenues:		
Operating Grants and Contributions		(82,901)
Non-Program General State Aid		$1,532,679

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.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Cash

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

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

As of June 30, 2010, the book amount of the CPS' deposit accounts was $35.4 million. The bank balances totaled $36.8 million as of June 30, 2010. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2010. 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.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

At June 30, 2010, CPS had the following investments ($000's) and maturities:

Investment Type	Ratings	Carrying Amount	Maturities Less Than 1 Year	Maturities 1-5 Years
Repurchase Agreements	AAA	$ 83,148	$ 83,148	$ —
U.S. Government Agency Securities	AAA	652,858	437,503	215,355
U.S. Treasury Notes	AAA	954	—	954
Commercial Paper	A1 or A1+/P-1	139,932	139,932	—
Money Market Mutual Funds	AAA	927,898	927,898	—
Total Investments		$1,804,790	$1,588,481	$216,309
Cash		35,405		
Total Cash and Investments		$1,840,195		

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, 2010, 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, 2010, 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, 2010, 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, 2010, all of CPS' investments 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, 2010 ($000's):

Fund:	Amount
General Operating Fund	$ 792,275
Capital Projects Fund	538,063
Debt Service Fund	509,857
Total Cash and Investments	$1,840,195

NOTE 5. RECEIVABLES

Receivables as of June 30, 2010 for CPS, net of the applicable allowance for uncollectible accounts, are as follows ($000's):

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fund Financial Statements	Government-Wide Financial Statements
Property taxes	$ 971,084	$ —	$5,905	$ 976,989	$ 976,989
Replacement taxes	22,829	—	—	22,829	22,829
State aid	811,487	20	—	811,507	811,507
Federal aid	154,833	1,190	—	156,023	156,023
Other	10,900	28,801	2,184	41,885	41,885
Total Receivables	$1,971,133	$30,011	$8,089	$2,009,233	$2,009,233
Less: Allowance for uncollectibles — property tax	(69,633)	—	(412)	(70,045)	(70,045)
Less: Allowance for uncollectibles — state aid	(3,842)	—	—	(3,842)	(3,842)
Less: Allowance for uncollectibles — other	(1,676)	—	—	(1,676)	(1,676)
Total Receivables, net	$1,895,982	$30,011	$7,677	$1,933,670	$1,933,670

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, 2010, the components of deferred revenue reported in the fund financial statements are as follows ($000's):

Deferred property taxes	$ 898,753
Other deferred revenue	766,062
Unearned revenue	26,254
Total Deferred Revenue	$1,691,069

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows ($000's):

Government-wide activities:	Beginning Balance	Increases	Decreases and Transfers to In-service	Ending Balance
Capital assets, not being depreciated:				
Land	$ 284,230	$ 14,218	$ (239)	$ 298,209
Construction in progress	811,154	489,855	(652,843)	648,166
Total capital assets not being depreciated	$ 1,095,384	$ 504,073	$(653,082)	$ 946,375
Capital assets being depreciated:				
Buildings and improvements	$ 6,398,000	$ 762,376	$ (49,860)	$ 7,110,516
Equipment and administrative software	159,229	9,201	(11,796)	156,634
Internally developed software	—	3,406	—	3,406
Total capital assets being depreciated	$ 6,557,229	$ 774,983	$ (61,656)	$ 7,270,556
Total Capital Assets	$ 7,652,613	$1,279,056	$(714,738)	$ 8,216,931
Less accumulated depreciation for:				
Buildings and improvements	$(2,569,690)	$ (179,775)	$ 48,246	$(2,701,219)
Equipment and administrative software	(45,257)	(7,329)	11,606	(40,980)
Total accumulated depreciation	$(2,614,947)	$ (187,104)	$ 59,852	$(2,742,199)
Capital Assets, net of depreciation	$ 5,037,666	$1,091,952	$(654,886)	$ 5,474,732

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

Governmental activities:	
Instruction	$120,128
Pupil support services	17,259
Administrative support services	7,953
Facilities support services	15,665
Instructional support services	17,943
Food services	8,156
Total Depreciation	$187,104

Construction Commitments

CPS had active construction projects as of June 30, 2010. These projects include new construction and renovations of schools. At year-end, CPS had approximately $229.5 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	$ 237,622
Due to Capital Asset Program	(1,133)
Due to Public Building Commission Leases Program	(39,982)
Due from Bond Redemption and Interest Program	40,887
Total — Due from other Funds	$ 237,394
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 1,133
Capital Improvement Program — Due to General Operating Fund	(237,622)
Total — Due to other Funds	$(236,489)
Debt Service Fund:	
Public Building Commission Leases Program — Due from General Operating Fund	$ 39,982
Bond Redemption and Interest Program — Due to General Operating Fund	(40,887)
Total — Due to other Funds	$ (905)

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 2010, by transferring $40 million from the Bond Redemption and Interest Program to the PBC Leases Program. Because the decision was made in July 2009, the PBC lease fund had already received its 2009 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 $18.1 million from the PBC Lease Program to the General Operating Fund.

In fiscal year 2010, CPS transferred $0.7 million of interest earnings and unspent issuance costs from the Debt Service Fund to the General Operating Fund and $0.9 million from the General Operating Fund to Bond Redemption and Interest Program for the insurance substitution cost. In addition, CPS also made an operating transfer of $46.8 million from the Capital Projects Fund to the Debt Service Fund for capitalized interest.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

CPS issued the following bonds in fiscal year 2010:

Unlimited Tax General Obligation Refunding Bonds (Series 2009D)

In July 2009, CPS issued $75,720,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2009D) at a premium of $4,238,498. The proceeds from these bonds were used to refund the Series 2004DE bonds. The Board contributed $917,872 to pay for costs of issuance. As a result of the issuance, $82,482,920 was deposited in a trust with an escrow agent to purchase the Series 2004DE bonds upon the next remarketing. On July 30, 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):

Description	Amount
Net proceeds	$79,959
Amounts on hand related to refunded debt	2,524
Total	$82,483

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.04 million. This difference reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations through the year 2023. 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 Bonds Taxable Build America Bonds (Series 2009E)

In September 2009, CPS issued $518,210,000 in Unlimited Tax General Obligation Taxable Build America Bonds (Series 2009E). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $470,423,849 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues and Federal interest subsidy payments.

Unlimited Tax General Obligation Bonds (Series 2009F)

In September 2009, CPS issued $29,125,000 in Unlimited Tax General Obligation Bonds (Series 2009F) 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. As a result of the issuance, CPS recorded net proceeds of $28,589,164 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

Unlimited Tax General Obligation Bonds Qualified School Construction Bonds (Series 2009G)

In December 2009, CPS issued $254,240,000 in Unlimited Tax General Obligation Bonds Qualified School Construction Bonds (Series 2009G). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of $251,721,700 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

NOTE 8. LONG-TERM DEBT (continued)

Unlimited Tax General Obligation Refunding Bonds (Series 2010AB)

In February 2010, CPS issued $205,965,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2010AB). CPS contributed $777,087 to pay for costs of issuance. The proceeds from these bonds were used to refund the Series 2004C-2 and Series 2005D-2 bonds. As a result of the issuance, $48,952,880 was deposited in a trust with an escrow agent to purchase the Series 2004C-2 bonds upon the next remarketing. CPS deposited $157,268,423 in a trust with an escrow agent to purchase the Series 2005D-2 bonds upon its next remarketing. In February 2010, 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):

Description	Amount
Net proceeds	$205,965
Amounts on hand related to refunded debt	256
Total	$206,221

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.5 million. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2035. 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, 2009	Issuances	Retirements	Principal Outstanding June 30, 2010	Accreted Interest	Principal and Accreted Interest June 30, 2010
2010B	$ —	$ 157,055	$ —	$ 157,055	$ —	$ 157,055
2010A	—	48,910	—	48,910	—	48,910
2009G	—	254,240	—	254,240	—	254,240
2009F	—	29,125	—	29,125	—	29,125
2009E	—	518,210	—	518,210	—	518,210
2009D	—	75,720	(4,340)	71,380	—	71,380
2009C	20,265	—	(6,450)	13,815	—	13,815
2009B	75,410	—	—	75,410	—	75,410
2009A	130,000	—	—	130,000	—	130,000
2008C	464,655	—	—	464,655	—	464,655
2008B	236,150	—	(5,100)	231,050	—	231,050
2008A	262,785	—	—	262,785	—	262,785
2007D	233,065	—	(6,875)	226,190	—	226,190
2007BC	204,340	—	(305)	204,035	—	204,035
2006B	347,145	—	(6,170)	340,975	—	340,975
2006A	6,853	—	—	6,853	—	6,853
2005DE	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	29,155	—	(29,155)	—	—	—
2004D	53,030	—	(53,030)	—	—	—
2004C-2	48,910	—	(48,910)	—	—	—
2004A	205,410	—	—	205,410	—	205,410
2003C	4,585	—	—	4,585	—	4,585
2003A	53,585	—	(5,640)	47,945	—	47,945
2002A	46,040	—	(1,675)	44,365	—	44,365
2001C	19,620	—	(4,545)	15,075	—	15,075
2001B	9,440	—	—	9,440	—	9,440
2001A	3,895	—	(905)	2,990	—	2,990
2000E	13,390	—	—	13,390	—	13,390
2000B,C,D	303,000	—	(3,600)	299,400	—	299,400
2000A	16,525	—	(2,365)	14,160	—	14,160
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	529,030	—	(24,342)	504,688	210,007	714,695
1998B-1	328,714	—	(17,825)	310,889	251,113	562,002
1998	14,000	—	—	14,000	—	14,000
1997A	37,985	—	—	37,985	36,415	74,400
1997	50,710	—	(11,465)	39,245	—	39,245
1996	46,070	—	(10,495)	35,575	—	35,575
Total Bonds	$4,221,497	$1,083,260	$(400,247)	$4,904,510	$497,535	$5,402,045
Note Payable	1,318	—	(1,318)	—	—	—
Asbestos Abatement Loans	2,710	—	(2,710)	—	—	—
Total Long-Term Debt	$4,225,525	$1,083,260	$(404,275)	$4,904,510	$497,535	$5,402,045
Less Current Portion						(133,173)
Deferred Amounts:						
On Refunding						(95,871)
For Net Premium/(Discount)						96,343
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						$5,269,344

NOTE 8. LONG-TERM DEBT (continued)

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

Bonds	$(109,688)
Accreted Interest	(28,812)
Refunding	5,327
Subtotal	$(133,173)
Lease obligations	(29,015)
Total Current Portion	$(162,188)

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, 2010 are as follows ($000's):

Description	Amount Defeased	Amount Outstanding
Unlimited Tax General Obligation Bonds Series 2005C	$ 53,750	$ 49,750
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	90,435	90,435
Total	$398,070	$394,070

Future debt and associated swap payments (see Note 10). Interest rates on fixed rate bonds range from 1.75% to 6.75%, except that CPS does not pay or accrue interest on the Series 2006A Bonds, Series 2003C Bonds, the Series 2001B Bonds, the Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own these bonds will be entitled to a credit against taxable income. Interest rates on unhedged variable rate bonds assume the debt service deposit requirement rate and net swap payments assume that variable rates as of June 30, 2010 remain the same through their term. Debt service requirements for the Unlimited Tax General Obligation Bonds and net swap payments are scheduled as follows ($000's):

	Fixed Rate Bonds		Variable Rate Bonds			
Fiscal Year(s)	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	Total
2011	$ 93,087	$ 176,329	$ 16,600	$ 21,172	$ 35,327	$ 342,515
2012	114,891	170,230	17,365	20,571	35,327	358,384
2013	101,113	171,668	18,320	19,944	35,327	346,372
2014	119,932	173,769	19,360	19,549	35,074	367,684
2015	110,572	172,026	21,015	19,122	34,811	357,546
2016-2020	650,432	798,634	131,265	87,337	168,903	1,836,571
2021-2025	866,186	778,332	195,075	66,235	153,416	2,059,244
2026-2030	998,792	698,799	488,010	37,147	105,133	2,327,881
2031-2035	404,135	409,340	293,400	4,901	26,069	1,137,845
2036-2040	226,945	31,143	18,015	639	—	276,742
Total	$3,686,085	$3,580,270	$1,218,425	$296,617	$629,387	$9,410,784

* Interest on Series 2000BCD unhedged variable rate demand notes was calculated at an assumed rate of 6.0% per annum, interest on unhedged Series 2009C variable rate demand notes calculated at an assumed rate of 4.5% per annum (equals annual debt service deposit requirements). Interest on variable rate demand notes assumes current interest rates remain the same as of June 30, 2010, and was calculated as follows:

Series 2000C — 0.3900%
Series 2008A — 1.1100%
Series 2008B — 1.1100%
Series 2009A — 0.3000%
Series 2009B — 0.1300%
Series 2010A — 0.1300%
Series 2010B — 0.1300%

** Series 2000C computed: (3.823% — 0.243908%) x Outstanding Principal
Series 2008A computed: (5.2500% — 0.523908%) x Outstanding Principal
Series 2008B computed: (3.771% — 0.243908%) x Outstanding Principal
Series 2009A computed: (3.6617% — 0.243908%) x Outstanding Principal
Series 2009B computed: (3.825% — 0.243908%) x Outstanding Principal
Series 2010A computed: (3.825% — 0.243908%) x Outstanding Principal
Series 2010B computed: (3.6617% — 0.243908%) 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, 2010 there were no bonds drawn under the Standby Bond Purchase Agreement. The scheduled maturity of the bonds will not change if the Standby Purchase Agreements are not renewed.

NOTE 8. LONG-TERM DEBT (continued)

The $65,000,000 Series 2009A-1 are supported by a Letter of Credit Facility with Harris Bank NA and the $65,000,000 Series 2009A-2 are supported by The Northern Trust Company, both 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, 2010 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change if the Letter of Credit Agreements are not renewed.

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, 2010 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change if the Letter of Credit Agreements are not renewed.

The $48,910,000 Series 2010A and $157,055,000 Series 2010B are supported by a Letter of Credit Facility with JP Morgan Bank which expires on February 17, 2013 for Series 2010AB. 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 plus 1.50%, the Federal Funds Rate plus 2.0% or 5.0% for the first 90 days. For the 91st day and thereafter interest would incur at the greater of the Prime Rate plus 2.5%, the Federal Funds Rate plus 3.0% or 7.50%. In the event of default, the interest rate would be the greater of the Prime Rate, plus 2.50%, Federal Funds rate plus 3.00% or 7.50% and in each case plus 3.00%; but in no case may the rate exceed the maximum rate allowed under Illinois law, not to exceed 15% per annum. The commitment fee is 1.25% per annum for the Series 2010AB bonds and at June 30, 2010 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change if the Letter of Credit Agreements are not renewed.

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

Series	Accreted Interest June 30, 2009	Increase	Payment	Accreted Interest June 30, 2010
1997A	$ 32,543	$ 3,872	$ —	$ 36,415
1998B-1	234,309	28,339	(11,535)	251,113
1999A	200,538	24,432	(14,963)	210,007
	$467,390	$56,643	$(26,498)	$497,535

The loans with the EPA to fund specific asbestos abatement projects were non-interest bearing and were paid off in fiscal year 2010.

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, 2010, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals	Other	Total
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	52,029	424	52,453
2016-2020	238,825	2,118	240,943
2021	—	295	295
Total Rentals	$ 498,598	$ 4,533	$ 503,131
Less — Interest and other costs	(139,383)	(2,258)	(141,641)
Principal amount of rental due	$ 359,215	$ 2,275	$ 361,490

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010
PBC Leases	$386,385	$—	$(27,170)	$359,215
Other Capitalized Leases	2,450	—	(175)	2,275
	$388,835	$—	$(27,345)	$361,490
Less: Current Portion PBC Leases				(28,840)
Current Portion Other Capitalized Leases				(175)
Total Long-Term Leases Outstanding				$332,475

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, 2010 were $20.2 million. Following is a summary of operating lease commitments as of June 30, 2010 (000's):

Fiscal Year(s)	Non-Real property leases	Real Property leases	Total
2011	$ 9,072	$10,362	$19,434
2012	7,394	9,173	16,567
2013	3,938	8,960	12,898
2014	1,510	8,962	10,472
2015	114	7,938	8,052
2016-2020	79	12,023	12,102
2021-2025	—	6,462	6,462
Total Operating Lease Commitments	$22,107	$63,880	$85,987

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. The guidance in GASB 53 improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. CPS implemented GASB 53 for the fiscal year ended June 30, 2010.

Interest Rate Derivatives

CPS has ten interest rate swaps as of June 30, 2010. Interest rate swaps are classified as hedging derivative instruments, if the hedging instruments meet the criteria of paragraph 27 a and b of GASB 53, or are classified as investment derivative instruments. The following table summarizes the interest rate swaps outstanding as of the end of the period.

Potential Hedging Derivative	Trade Date	Effective Date	Termination Date	Counterparty
$61.1MM Pay Fixed Swap	02/13/2007	03/01/2007	03/01/2032	Royal Bank of Canada
$100MM Pay Fixed Swap	08/18/2005	12/01/2007	12/01/2030	Bank of America, N.A.
$162.785MM Pay Fixed Swap	11/16/2006	12/01/2007	12/01/2028	Royal Bank of Canada
$90MM Pay Fixed Swap	12/08/2003	12/12/2003	03/01/2034	Goldman Sachs Capital Markets, L.P.
$95.35MM Pay Fixed Swap	12/08/2003	12/12/2003	03/01/2034	Goldman Sachs Bank USA
$130MM Pay Fixed Swap	11/30/2005	12/08/2005	03/01/2026	Loop Financial Products I LLC
$124.32MM Pay Fixed Swap	02/13/2007	03/01/2007	03/01/2035	Royal Bank of Canada
$157.055MM Pay Fixed Swap	11/30/2005	12/08/2005	03/01/2036	Loop Financial Products I LLC
$116.151MM Basis Swap	10/05/2005	11/01/2005	12/01/2031	Loop Financial Products I LLC
$77.434MM Basis Swap	10/05/2005	11/01/2005	12/01/2031	Merrill Lynch Capital Services, Inc.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Evaluation of Hedge Effectiveness

GASB 53 includes four methods for evaluating hedge effectiveness. A governmental entity can use any evaluation method outlined in the Statement and is not limited to using the same method from period to period. The four methods described in GASB 53 are consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 allows a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory". CPS' derivatives have been evaluated by an independent third-party vendor, using the four methods mentioned in the Statement and the results are summarized below:

Hedging Derivative Instruments

Consistent Critical Terms Method: . . .	No derivatives pass
Synthetic Instrument Method:	$61.1MM Swap
Dollar-Offset Method:	No derivatives pass
Regression Analysis Method:	$100MM Swap, $162.785MM Swap, $90MM Swap, $95.35MM Swap, $130MM Swap, $124.32MM Swap, $157.055MM Swap

As of June 30, 2010, eight of ten potential hedging derivatives are effective hedges under GASB 53. The Basis Swaps do not meet the criteria of paragraph 27 b and are classified according to GASB 53 as investment derivatives.

The table below summarizes derivative instrument activity during the reporting period and balances at the end of the period (debit / (credit)): ($000's)

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow	$52,181	Debt	$165,022	$920,610
Investment derivatives:					
Basis swaps	Interest and investment earnings	$ (251)	Debt	$ (4,037)	$193,585

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

The objectives and terms of CPS' eight hedging derivatives outstanding at the end of the period are below:

Type	Objective	Notional Amount (000's)	Trade Date	Termination Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2000C bonds	$ 61,100	02/13/2007	03/01/2032	Pay 3.823% Receive 1ML x 70%	Aaa/AA-
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008A bonds	$100,000	08/18/2005	12/01/2030	Pay 5.25% Receive 1ML x 70% + 0.28%	Aa3/A+
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008A bonds	$162,785	11/16/2006	12/01/2028	Pay 5.25% Receive 1ML x 70% + 0.28%	Aaa/AA-
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008B bonds	$ 90,000	12/08/2003	03/01/2034	Pay 3.771% Receive 1ML x 70%	Aa3/NR
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008B bonds	$ 95,350	12/08/2003	03/01/2034	Pay 3.771% Receive 1ML x 70%	Aa3/NR
Pay-fixed interest rate swap	Hedge interest rate risk on 2009A-1 and 2009A-2 bonds	$130,000	11/30/2005	03/01/2026	Pay 3.6617% Receive 1ML x 70%	Aa3/A+
Pay-fixed interest rate swap	Hedge interest rate risk on 2009B and 2010A bonds	$124,320	02/13/2007	03/01/2035	Pay 3.825% Receive 1ML x 70%	Aaa/AA-
Pay-fixed interest rate swap	Hedge interest rate risk on 2010B bonds	$157,055	11/30/2005	03/01/2036	Pay 3.6617% Receive 1ML x 70%	Aa3/A+

Credit Risk

As of June 30, 2010, all hedging derivatives are liabilities and associated credit risk is not considered material. All of CPS' interest rate swap counterparties are currently rated A or higher by Fitch and/or S&P, and A2 or higher by Moody's. CPS manages credit risk by requiring its counterparties to post collateral in certain events. CPS is entitled to collateral from its counterparties if a net position with a counterparty is an asset of $25M or more and the counterparty is rated below AA by Fitch and/or S&P, or Aa3 by Moody's; CPS is not required to post collateral. CPS enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, CPS has interest rate swaps with five different counterparties and no counterparty accounts for more than 37% of outstanding notional. CPS monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

All hedging derivatives are pay-fixed, receive-variable, cash flow hedges hedging a portion of CPS' variable rate debt. CPS believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into interest rate swaps.

Basis Risk

With the exception of Series 2008A and Series 2008B indexed bonds (private placements), the variable rate debt hedged by CPS's derivatives are variable rate demand obligation (VRDO) bonds that are remarketed daily or weekly. With the exception of the Series 2008 indexed bonds, CPS is exposed to basis risk because the variable rate receipts from the hedging derivatives are based on a rate or index other than the interest rates CPS pays on the VRDO bonds. CPS is exposed to basis risk to the degree that variable

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

payments on the hedged item are not offset by the variable receipts from the hedging derivative. There is little basis risk on the hedged portion of the 2008 indexed bonds because the hedged variable payments are based on the same index, 1-Month LIBOR, as the variable receipts from the hedging derivative. For the period, the weighted average interest rate on CPS' variable rate debt is 0.71%, SIFMA is 0.28%, and 70% of 1-Month LIBOR is 0.17%.

Termination Risk

CPS or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, CPS' swap counterparties have the right to terminate a derivative if the credit rating of CPS's unenhanced, unlimited tax general obligation bonds is withdrawn or reduced by any two of Fitch, Moody's, and S&P below BBB in the case of Fitch or S&P, or Baa2 in the case of Moody's. If such an event occurs, CPS could be forced to terminate a derivative in a liability position. As of the date of this report, CPS' unenhanced, unlimited tax general obligation bonds are rated AA- by Fitch and S&P, and Aa2 by Moody's.

Rollover Risk

Rollover risk is the risk that a hedging derivative instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. As of June 30, 2010, rollover risk is not considered material.

Foreign Currency Risk

All hedging derivatives are denominated in US Dollars and therefore CPS is not exposed to foreign currency risk.

Other Investment Derivatives

As of June 30, 2010, CPS had investments with the following maturities (amounts in thousands):

Investment Type	Fair Value	Maturities Less than 1 Year	Maturities 1-5 Years	Maturities 6-10 Years	Maturities More Than 10 Years
Investment Derivative Instrument	$(1,496)	—	$7,500	$22,452	$86,199
Investment Derivative Instrument	$(2,541)	—	$5,000	$14,968	$57,466

The objectives and terms of CPS' two investment derivatives outstanding at the end of the period are below:

Type	Objective	Notional Amount (000's)	Trade Date	Termination Date	Terms	Counterparty Credit Rating
Basis Swap	Reduce interest expense and change cash flows on 2005A fixed rate bonds	$116,151	10/5/2005	12/1/2031	Pay SIFMA Receive 1ML x 70% + .00054%	Aa3A+
Basis Swap	Reduce interest expense and change cash flows on 2005A fixed rate bonds	$ 77,434	10/5/2005	12/1/2031	Pay SIFMA Receive 1ML x 80.76%	A2/A

NOTE 11. OTHER LONG-TERM LIABILITIES

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

	Balance June 30, 2009	Additions	Payments	Balance June 30, 2010
Accrued Sick Pay Benefits	$295,302	$ 80,708	$(41,042)	$334,968
Accrued Vacation Pay Benefits	74,306	15,000	(13,798)	75,508
Accrued Workers' Compensation Claims	91,791	36,676	(24,791)	103,676
Accrued General and Automobile Claims	9,000	—	(3,469)	5,531
Tort Liabilities and Other Claims	2,000	500	—	2,500
Total	$472,399	$132,884	$(83,100)	$522,183
Less: Current Portion of Accrued Sick Pay Benefits				(52,087)
Less: Current Portion of Accrued Vacation Pay Benefits				(9,797)
Total Other Long-term Liabilities				$460,299

The following is activity related to workers' compensation claims and general and automobile claims:

Balance June 30, 2008	Additions	Payments	Balance June 30, 2009	Additions	Payments	Balance June 30, 2010
$96,967	$30,956	$(27,132)	$100,791	$36,676	$(28,260)	$109,207

Sick Pay Benefits

CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 320 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.

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 $250,000,000 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 2010, 2009 and 2008 there were no claims made in excess of the self-insured amount and there has been no significant reduction in insurance coverage over the past three fiscal years.

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

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 14, there are pending workers' compensation and tort claims involving the CPS which have arisen out of the ordinary conduct of business. The CPS budgets an amount each year in the Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, 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 $55 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, 2010. Following is the activity related to medical claims for which the CPS is self-insured ($000's):

Balance June 30, 2008	Additions	Payments	Balance June 30, 2009	Additions	Payments	Balance June 30, 2010
$48,464	$333,514	$(327,938)	$54,040	$347,719	$(346,842)	$54,917

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 contributor. 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, 2009, the most recent report, there were 31,095 active participants in the Pension Fund, substantially all of who were employees of the CPS.

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

Participating members contribute 9% of salary, allocated as follows: 7.5% for retirement pension, 0.5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 2010, as in previous fiscal years, CPS paid a portion (7% — $125.4 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

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	$ 37,551
A contribution to increase funded ratio to 90%	256,877
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	61,331
A contribution to Early Retirement Option Plan	5,837
A 20% deficiency payment	607
Total contributions	$362,203

For the fiscal year ended June 30, 2010, employee contributions are $161.2 million which is 9% of covered payroll. Employer contributions for the year are $362.2 million which is approximately 19% 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 $350.2 million and amounts incurred by CPS for a portion of the required employees' pension contribution of $125.4 million, which total $475.6 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the Federal grants, are reflected in the same functional classifications as the teachers' salaries.

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

The CPS' annual pension costs for fiscal years 2010, 2009 and 2008 are as follows ($000's):

	2010	2009	2008
Annual required contribution (ARC)	$ 355,846	$ 292,146	$ 290,073
Interest on Net Pension Obligation (NPO)	154,391	148,588	140,114
Adjustment to annual required contribution	(109,234)	(105,127)	(99,133)
Annual Pension Cost (APC)	$ 401,003	$ 335,607	$ 331,054
Less: Contributions made	(362,203)	(263,069)	(225,134)
Increase in NPO	$ 38,800	$ 72,538	$ 105,920
Add NPO, beginning of year	1,929,885	1,857,347	1,751,427
NPO, end of year	$1,968,685	$1,929,885	$1,857,347

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 4% per year
Inflation	3%

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At June 30, 2009, 2008 and 2007 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information are as follows ($000's):

	2009	2008	2007
Actuarial value of assets	$ 11,493,256	$ 12,069,417	$ 11,759,699
Less: Actuarial Accrued Liability (AAL)	(15,683,242)	(15,203,741)	(14,677,184)
AAL unfunded (liability) / surplus	$ (4,189,986)	$ (3,134,324)	$ (2,917,485)
Funded ratio	73.3%	79.4%	80.1%
Covered payroll	$ 1,996,194	$ 1,914,559	$ 1,863,182
Unfunded AAL as a percentage of covered payroll	209.9%	163.7%	156.6%

	2010	2009	2008
Annual pension cost	$ 401,003	$ 335,607	$ 331,054
Percentage of annual pension cost contributed	90.3%	78.4%	68.0%
Net Pension Obligation	$1,968,685	$1,929,885	$1,857,347

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 $318.2 million in fiscal year 2010 to increase the funded ratio to 90%. In April 2010, the General Assembly passed bill SB1946 which provides short-term pension relief to CPS. Under this legislation, CPS is required to make pension contributions in the amount of the "normal cost" of benefits beginning in fiscal year 2011 through fiscal year 2014, resulting in significantly lower pension contributions. However, beginning in fiscal year 2015, CPS will be required to make pension contributions to increase the funded ratio to 90%. During fiscal year 2010 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 cost-sharing 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 2010, as in previous fiscal years, CPS agreed to pay a portion (7% — $38.5 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 $96.9 million, $38.5 million of this amount represents the required employees' contribution paid by CPS on behalf of its employees; $50.8 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining $7.6 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 for fiscal year 2010 is $96.9 million. For fiscal years 2009 and 2008, the career service pension expense was $93.8 million and $91.1 million, respectively.

As of December 31, 2009, the date of the latest available report, the Annuity Fund had net assets of approximately $5.2 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $4.8 billion. The CPS employs approximately 16,481 of the 31,586 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 cost sharing multiple employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund"). There are no assets of the CPS included in the Pension Fund. The initial actuarial analysis is contained in a stand alone report that was commissioned by CPS and is available by contacting Chicago Public Schools, 125 South Clark Street, Chicago, Illinois 60603. Subsequent analyses will be contained within the Pension Fund Annual Report and will be available by contacting the Public School Teachers' Pension & Retirement Fund of Chicago, 203 North LaSalle Street, Chicago, Illinois 60601.

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 70% of the individual member's cost for fiscal years 2009 and 2008. 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, 2009, the most recent available data, there were 16,495 active participants in the Chicago Teachers' Pension Fund Retiree Health Insurance Program.

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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The CPS' annual OPEB costs for fiscal year 2010, 2009 and 2008 are as follows ($000's):

	2010	2009	2008
Annual required contribution	$186,232	$171,880	$150,033
Interest on net OPEB obligation	34,049	26,091	21,255
Adjustment to annual required contribution	(27,563)	(21,121)	(16,589)
Annual OPEB cost	$192,718	$176,850	$154,699
Less: Contributions made	—	—	—
Increase in OPEB	$192,718	$176,850	$154,699
Add OPEB, beginning of year	756,653	579,803	425,104
OPEB, end of year	$949,371	$756,653	$579,803

Actuarial valuation date	June 30, 2009
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%

At June 30, 2009, 2008 and 2007 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2009	2008	2007
Actuarial value of assets	$ 49,692	$ 44,989	$ 47,402
Less: Actuarial Accrued Liability (AAL)	(2,670,283)	(2,407,122)	(2,022,008)
AAL unfunded (liability) / surplus	$(2,620,591)	$(2,362,133)	$(1,974,606)
Funded ratio	1.9%	1.9%	2.3%
Covered payroll	$ 1,996,194	$ 1,914,559	$ 1,863,182
Unfunded AAL as a percentage of covered payroll	131.3%	123.4%	105.9%

	2009	2008	2007
Annual OPEB cost	$192,718	$176,850	$154,699
Percentage of annual pension cost contributed	0%	0%	0%
Net OPEB obligation	$949,371	$756,653	$579,803

Other Personnel

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2010.

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):

Purpose	Reserved Amount
Workers' Compensation/Tort Immunity	$ 53,937
Supplementary General State Aid	55,226
Total	$109,163

The amounts reserved for Workers' Compensation/Tort Immunity and Supplementary General State Aid represent unexpended and unencumbered funds.

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 2011 budget, CPS appropriated in its General Operating Fund $54.6 million of fund balances from amounts reserved for specific purposes and $190 million of general fund balance.

In its fiscal year 2010 budget, CPS designated $181.2 million to provide working capital. In its fiscal year 2011 budget, CPS did not designate an amount to provide working capital.

During fiscal year 2010, as a result of bond indentures CPS reserved $375.2 million for Debt Service of which $319.1 million was allocated to the Bond Redemption and Interest Program and the remaining $56.1 million was allocated to the Public Building Commission Leases Program.

b. Net Assets Restrictions

The government-wide statement of net assets reports $561.9 million of restricted net assets, of which $446.9 is restricted for Debt service, $5.8 million is restricted for Donations and $109.2 is restricted by Enabling legislation.

NOTE 14. 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, 2010, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2010.

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. In fiscal year 2010 CPS recorded a pollution remediation obligation of $8.7 million as current year expense in the Statement of Activities.

Several CPS facilities contain hazardous contaminates such as lead and asbestos, which is continually monitored by the school district. CPS' pollution remediation obligation is primarily related to the removal of

NOTE 14. LITIGATION AND CONTINGENCIES (continued)

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, 2010, 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, 2010.

NOTE 15. RESTATEMENT DUE TO ADOPTION OF NEW ACCOUNTING STANDARD

In fiscal year 2010, CPS implemented GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addressed the recognition measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The following table shows beginning net assets restated for the effects of implementation of GASB 53 ($000's):

Net Assets at June 30, 2009 — Government- Wide	$(446,427)
Deferred outflow of resources	110,811
Derivative instrument liability	(115,143)
Swaption borrowing payable	(40,128)
Restated Net Assets as of July 1, 2009	$(490,887)

The effects of GASB 53 in the prior year statement of activities would have resulted in a reduction of $2 million in interest expense.

NOTE 16. SUBSEQUENT EVENTS

Unlimited Tax General Obligation (Series 2010C) Taxable Qualified School Construction Bonds — Direct Payment and (Series 2010D) Taxable Build America Bonds — Direct Payment

In November 2010, CPS issued $257,125,000 in Unlimited Tax General Obligation Bonds (Series 2010C) Taxable Qualified School Construction Bonds, and $125,000,000 in Unlimited Tax General Obligation Bonds (Series 2010D) Taxable Build America Bonds.

CPS has made the election to have Section 54F of the Internal Revenue Code of 1986, as amended (the "Code") apply to the Series 2010C Bonds so the Series 2010C Bonds may qualify as "qualified school construction bonds" under Code Section 54F, which was added to the Code by the provisions of the American Recovery and Reinvestment Act of 2009. CPS has also made the election to have Subsection 6431(f) of the Code apply to the Series 2010C Bonds in order to receive the refundable credits allowed to issuers pursuant to Subsection 6431(f) of the Code, which was added by the Hiring Incentives to Restore Employment Act of 2010. As a result of these elections, holders of the 2010C bonds will not receive any tax credits, and interest on the 2010C bonds will be included by the bondholder in their gross income for federal income tax purposes. CPS will be entitled to periodic cash subsidy payments from the federal government on each interest payment date at a rate equal to 5.1% per annum, 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.

NOTE 16. SUBSEQUENT EVENTS (continued)

CPS has made the election to have Section 54AA of the Internal Revenue Code of 1986, as amended (the "Code") apply to the Series 2010D Bonds so the Series 2010D Bonds may qualify as "build America bonds" under Code Section 54AA(d). CPS has also made the election to have Section 54AA(g) of the Code apply to the Series 2010D 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 the Series 2010C and 2010D 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.

Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Series 2010F) and Taxable Unlimited Tax General Obligation Refunding Bonds (Series 2010G)

In November 2010, CPS issued $183,750,000 in Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Series 2010F) and $72,915,000 in Taxable Unlimited Tax General Obligation Refunding Bonds (Series 2010G).

The proceeds from these bonds are being used to refund outstanding Series 1996, 1997, 2000A, 2001A and 2001C bonds and a portion of Series 2000BCD, Series 2003A, Series 2004A, Series 2006B, Series 2007D, Series 08B, Series 2009C, Series 2009D and Series 2009F bonds, and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of $269,482,559 were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments the refunded bonds. As a result, these refunded bonds are considered to be either fully refunded or defeased. The debt service on the Series 2010FG bonds will be paid from General State Aid Revenues.

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APPENDIX B

Pension Fund Actuarial Valuation for Fiscal Year 2010

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PUBLIC SCHOOL TEACHERS' PENSION AND RETIREMENT FUND OF CHICAGO

ACTUARIAL VALUATION AS OF JUNE 30, 2010

GOLDSTEIN & ASSOCIATES

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

29 SOUTH LaSALLE STREET SUITE 735
CHICAGO, ILLINOIS 60603
PHONE (312) 726-5877 FAX (312) 726-4323

January 13, 2011

Board of Trustees
Public School Teachers' Pension
and Retirement Fund of Chicago
203 N. LaSalle Street
Suite 2600
Chicago, Illinois 60601

Re: <u>Actuarial Valuation as of June 30, 2010</u>

Dear Board Members:

I am pleased to submit our actuarial report on the financial position and funding requirements of the Public School Teachers' Pension and Retirement Fund of Chicago based on the actuarial valuation as of June 30, 2010.

The report consists of 10 Sections and 3 Appendices as follows:

I would be pleased to discuss any aspects of this report with you at your convenience.

Respectfully submitted,

Sandor Goldstein, F.S.A.
Consulting Actuary

A. PURPOSE AND SUMMARY

For purposes of GASB Statement No. 25 and GASB Statement No. 43, we have performed separate actuarial valuations of the pension benefits and retiree health insurance benefits provided under the Public School Teachers' Pension and Retirement Fund of Chicago and are preparing actuarial reports based on these valuations.

As has been done in past years, we have also performed a combined actuarial valuation as of June 30, 2010 of the pension and retiree health insurance benefits provided under the fund to measure the overall funded status and contribution requirements of the Fund. We believe that such a combined valuation is required under Section 17-129 of the Illinois Pension Code which specifies the funding requirements for the fund. The following funding provision is contained in Section 17-129 of the Illinois Pension Code: "For fiscal years 2014 through 2059, the minimum contribution to the Fund to be made by the Board of Education in each fiscal year shall be an amount to be determined by the Fund to be sufficient to bring the total assets of the Fund up to 90% of the total actuarial liabilities of the Fund by the end of fiscal year 2059.....". This report is intended to present the results of the combined valuation. The results of the combined valuation are summarized below:

1. Total Actuarial Liability	$ 16,319,743,665
2. Actuarial Value of Assets	10,952,274,725
3. Unfunded Actuarial Liability	5,367,468,940
4. Funded Ratio	67.1%
5. Employer's Normal Cost for FY 11 as a percent of payroll	8.98%
6. Board of Education Contribution Requirement For FY 12 Based on Public Act 96-0889	$ 192,000,000

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the Fund. The membership of the Fund as of June 30, 2010, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 33,983 active contributors, 24,600 pensioners, and 2,752 vested terminated members included in the valuation. The total active payroll as of June 30, 2010 was $2,107,934,080.

Exhibit 1

Summary of Membership Data

1. Number of Members	
(a) Active Members	
(i) Vested Employees	21,983
(ii) Non-vested Employees	12,000
(iii) Total Active Members	33,983
(b) Members Receiving	
(i) Retirement Pensions	21,455
(ii) Disability Pensions	453
(iii) Survivor Pensions	2,692
(iv) Total Pensioners	24,600
(c) Vested Terminated Members	2,752
(d) Total	61,335
2. Total Annual Salaries	$ 2,107,934,080
(a) Average Salary	62,029
3. Total Accumulated Contributions of Active Members	$ 1,514,213,112
4. Annual Benefit Payments Currently Being Made	
(a) Retirement Pensions	$ 931,214,307
(b) Disability Pensions	13,309,241
(c) Survivor Pensions	43,639,295
(d) Total Pensions	$ 988,162,843

An age and service distribution for active members is provided in Exhibit 2.

EXHIBIT 2

AGE AND SERVICE DISTRIBUTION OF ACTIVE MEMBERS

Year 2010

Number of Members and Average Salaries by Age and Service Grouping
(Male and Female Combined)

	Year of Service									
Age	**<1**	**1 to 4**	**5 to 9**	**10 to 14**	**15 to 19**	**20 to 24**	**25 to 29**	**30 to 34**	**35+**	**Total**
under 25	295	478								773
	$14,622	$45,056								$33,442
25-29	724	3,319	747							4,790
	$12,490	$45,919	$60,333							$43,114
30-34	392	2,343	2,481	391						5,607
	$15,838	$46,847	$62,101	$77,112						$53,539
35-39	236	1,154	1,615	1,408	271					4,684
	$12,652	$45,780	$62,729	$78,006	$87,587					$62,061
40-44	191	666	853	947	943	138				3,738
	$12,456	$43,497	$62,960	$77,367	$86,148	$92,225				$67,492
45-49	153	469	614	616	681	458	102			3,093
	$9,872	$40,624	$64,356	$75,511	$83,014	$86,648	$97,528			$68,787
50-54	153	422	552	552	654	528	434	183	2	3,480
	$10,105	$37,941	$59,769	$75,021	$81,930	$84,015	$88,990	$94,003	$81,104	$70,658
55-59	128	375	443	493	662	618	469	625	339	4,152
	$9,526	$32,705	$56,061	$72,298	$80,182	$82,814	$86,228	$92,479	$100,749	$74,811
60-64	109	225	294	263	477	409	281	273	422	2,753
	$7,652	$26,451	$51,959	$66,087	$80,227	$84,448	$86,123	$91,641	$97,025	$73,524
65-69	40	74	62	66	115	109	73	76	89	704
	$2,730	$15,678	$47,818	$67,977	$82,837	$85,596	$86,795	$87,838	$99,440	$70,225
70+	22	35	18	16	25	24	10	16	43	209
	$2,836	$9,999	$23,659	$38,751	$67,443	$87,242	$84,522	$77,266	$91,949	$53,940
Number	2,443	9,560	7,679	4,752	3,828	2,284	1,369	1,173	895	33,983
Salary	$12,366	$43,964	$61,227	$75,612	$82,981	$84,901	$87,942	$92,014	$98,396	$62,029

Assets. In November of 1994, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 25, which establishes standards of financial reporting for governmental pension plans. The statement is effective for periods beginning after June 15, 1996. Under GASB Statement No. 25, the actuarial value of assets to be used for determining a plan's funded status and annual required contribution needs to be market related. In determining the actuarial value of assets, smoothing changes in the market value of assets over a period of three to five years is considered to be appropriate.

The asset values used for the valuation were based on the asset information contained in the audited financial statements for the year ending June 30, 2010 prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years. The resulting actuarial value of assets is $10,952,274,725. The development of this actuarial value of assets is outlined in Exhibit 3. As of June 30, 2010, the market value of the assets of the fund amounted to $8,982,328,064.

Exhibit 3

Actuarial Value of Assets

A. Development of Investment Gain/(Loss) For Year Ending June 30, 2010

1.	Actuarial Value of Assets as of 6/30/09	$ 11,542,947,504
2.	Employer Contributions and Miscellaneous Income	355,759,950
3.	Employee Contributions	194,621,551
4.	Expenses	1,101,288,632
5.	Expected Investment Income	901,823,447
6.	Actual Investment Income	1,107,573,753
7.	Investment Gain/(Loss) (6 – 5)	$ 205,750,306

B. Development of Actuarial Value of Assets

8.	Expected Value of Assets as of June 30, 2010 (1 + 2 + 3 – 4 + 5)	$ 11,893,863,820
9.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2007	274,065,301
10.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2008	(414,651,992)
11.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2009	(852,439,981)
12.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2010	51,437,577
13.	Actuarial Value of Assets as of June 30, 2010 (8 + 9 + 10 + 11 + 12)	$ 10,952,294,725

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2010 as provided in Article 17 of the Illinois Pension Code. Senate Bill 1946, which was signed into law on April 14, 2010 as Public Act 96-0889, created a "second tier" of benefits for teachers who first become participants under the fund on or after January 1, 2011. The benefit changes for new participants are as follows:

1. Defines the highest salary for annuity purposes as being the average monthly salary obtained by dividing the participant's total salary during the 96 consecutive months of service within

the last 120 months of service in which the total compensation was the highest by the number of months in that period.

2. For 2010, limits the final average salary to the Social Security wage base of $106,800. Limitations for future years shall automatically be increased by the lesser of 3% or one-half of percentage change in the Consumer Price Index-U during the preceding 12-month calendar year.
3. Allows a participant to retire with unreduced benefits after attainment of age 67 with at least 10 years of service credit. However, a participant may elect to retire at age 62 with at least 10 years of service credit and receive a retirement annuity reduced by one-half of 1% for each month that his or her age is under 67.
4. Provides an initial survivor's annuity equal to 66 2/3% of the participant's earned retirement annuity at the date of death, subject to automatic annual increases of the lesser of 3% or one-half of the increase in the Consumer Price Index-U during the preceding calendar year, based on the originally granted survivor's annuity.
5. Provides for automatic annual increases in the retirement annuity then being paid equal to the lesser of 3% or one-half the annual change in the Consumer Price Index for all Urban Consumers, whichever is less, based on the originally granted retirement annuity.

A summary of the principal provisions of the system in effect as of June 30, 2010 is provided in Appendix 2.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

With the significant change in the age for eligibility for a retirement annuity for persons who become participants on or after January 1, 2011, we have adopted new termination and retirement rate assumptions for such participants. The other actuarial assumptions used for the June 30, 2010 valuation are the same as the assumptions that were used for the June 30, 2009 valuation. These assumptions were based on an experience analysis of the fund over Fiscal Years 2003 through 2006. The actuarial assumptions used for the June 30, 2010 valuation are outlined in Appendix 1. In our opinion, the actuarial assumptions used for the valuation are reasonable, in the aggregate, taking into account Fund experience and future expectations and represent our best estimate of anticipated experience.

The projected unit credit actuarial cost method was used for the June 30, 2010 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2009 valuation.

E. ACTUARIAL LIABILITY

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 4. The total actuarial liability is then compared with the actuarial value of assets in order to arrive at the unfunded actuarial liability.

As of June 30, 2010, the total actuarial liability is $16,319,743,665, the actuarial value of assets is $10,952,274,725, and the unfunded liability is $5,367,468,940. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 67.1%.

Exhibit 4

Actuarial Liability as of June 30, 2010

1. Actuarial Liability for Active Members	
(a) Basic Retirement Annuity	$ 3,358,812,151
(b) Post Retirement Increase	914,807,641
(c) Lump Sum Death Benefit	10,556,239
(d) Survivor's Pension	325,887,031
(e) Disability Pension	91,862,816
(f) Withdrawal Benefit	264,958,069
(g) Total	$ 4,966,883,947
2. Actuarial Liability Members Receiving Benefits	
(a) Retirement Pensions	$ 10,672,134,293
(b) Survivor Pensions	396,815,930
(c) Disability Pensions	131,145,566
(d) Total	$ 11,200,095,789
3. Actuarial Liability for Inactive Members	152,763,929
4. Total Actuarial Liability	$ 16,319,743,665
5. Actuarial Value of Assets	10,952,274,725
6. Unfunded Actuarial Liability	$ 5,367,468,940
7. Funded Ratio	67.1%

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2010 is developed in Exhibit 5. The total normal cost is $366,617,054, employee contributions are estimated to be $177,302,867, resulting in the employer's share of the normal cost of $189,314,187.

Based on a payroll of $2,107,934,080 as of June 30, 2010, the employer's share of the normal cost can be expressed as 8.98% of payroll.

Exhibit 5

Employer's Normal Cost For Year Beginning July 1, 2010

	Dollar Amount	Percent Of Payroll
1. Basic Retirement Pension	$185,297,347	8.79%
2. Post Retirement Increases	50,114,952	2.38
3. Lump Sum Death Benefits	782,236	.04
4. Survivor's Pension	19,876,682	.94
5. Disability Benefits	7,369,342	.35
6. Withdrawal Benefits	29,333,646	1.39
7. Health Insurance Reimbursement	65,000,000	3.08
8. Administrative Expenses	8,842,849	.42
9. Total Normal Cost	$366,617,054	17.39%
10. Employee Contributions	177,302,867	8.41
11. Employer's Share of Normal Cost	$189,314,187	8.98%

Note. The above figures are based on a total active payroll of $2,107,934,080 as of June 30, 2010.

G. EMPLOYER CONTRIBUTION REQUIREMENTS FOR FISCAL YEAR 2012

Additional State Contributions. According to Section 17-127 of the Pension Code, the State shall make additional contributions of .544% of payroll to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%.

Based on the June 30, 2010 actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 67.1%. Therefore, additional State contributions will be required for Fiscal Year 2012. The total payroll for FY 2012 is projected to be $2,163,809,705. This total payroll includes employee contributions of 7% of salary paid by the Board of Education. Excluding these employee contributions from payroll results in an adjusted projected payroll of $2,022,252,061. Based on this adjusted projected payroll for Fiscal Year 2012, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $11,001,000.

Additional Board of Education Contributions. According to Section 17-127.2 of the Pension Code, the Board of Education shall make additional contributions of .58% of each teacher's salary to the Fund to offset a portion of the cost of benefit increases enacted under Public Act 90-582, except that no additional contributions are required if for the previous fiscal year the ratio of the fund's assets to total actuarial liabilities was at least 90%.

As the funded ratio as of June 30, 2010 is 67.1%, additional Board of Education contributions will be required for Fiscal Year 2010. Based on adjusted projected payroll of $2,022,252,061 for Fiscal Year 2012, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $11,729,000.

Board of Education Required Contribution. Senate Bill 1946, which was signed into law on April 14, 2010 as Public Act 96-0889, revised the funding provisions that had previously been in effect. Public Act 96-0889 specifies the Board of Education's required contribution for Fiscal Years 2011, 2012, and 2013 as a fixed dollar amount. The amount specified for Fiscal Year 2012 is $192,000,000. Therefore, pursuant to Public Act 96-0889, the Board of Education's required contribution for Fiscal Year 2012 is $192,000,000.

For Fiscal Years 2014 through 2059, the Board of Education is to make annual contributions calculated as a level percent of payroll sufficient to bring the total assets of the fund up to 90% of the total actuarial liabilities of the fund by the end of Fiscal year 2059.

H. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2009 to June 30, 2010 resulted in an increase in the Fund's unfunded actuarial liability of $1,227,174,917. This increase in unfunded actuarial liability is a result of several kinds of gains and losses. The financial effect of the most significant gains and losses is illustrated in Exhibit 6.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $502,408,516. The total actual employer contribution for the year amounted to $355,759,950. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $146,648,566. Had all other aspects of the Fund's experience been in line with the actuarial assumptions, the unfunded liability would have increased by this amount.

The Fund's actual rate of return for the year was approximately 14.1%. With the 4-year smoothing of unexpected gains and losses, 25% of the losses incurred in FY 2008 and FY 2009 were recognized in the current year. In addition, 25% of the gain in the current year and 25% of the gain in FY 2007 were recognized. Therefore, the rate of return taken into account in determining the actuarial value of assets worked out to -.4%. This resulted in an increase in the unfunded liability of $941,589,095. Salary increases lower than expected resulted in a decrease in the unfunded liability of $118,648,048.

The various other aspects of the Fund's experience resulted in an increase in the unfunded liability of $257,585,304. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $1,227,174,917.

Exhibit 6

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period July 1, 2009 to June 30, 2010

1. Unfunded Actuarial Liability as of 07/01/09	$ 4,140,294,023
2. Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 07/01/09 to 06/30/10	502,408,516
3. Actual Employer Contribution for the Year	355,759,950
4. Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (2 – 3)	$ 146,648,566
5. Increase in Unfunded Liability Due to Investment Return Lower Than Assumed	941,589,095
6. Decrease in Unfunded Liability Due to Salary Increases Lower Than Assumed	118,648,048
7. Increase in Unfunded Liability Due to Other Sources	257,585,304
8. Net Increase in Unfunded Liability for the Year (4 + 5 - 6 + 7)	$ 1,227,174,917
9. Unfunded Actuarial Liability as of June 30, 2010 (1 + 8)	$ 5,367,468,940

I. PROJECTION OF CONTRIBUTIONS, LIABILITIES, AND ASSETS

Based on the results of the June 30, 2010 actuarial valuation, we have projected valuation results for a 49-year period commencing with Fiscal Year 2011. We have based Board of Education contributions on the contribution requirements on the funding provision of Public Act 96-0889.

For purposes of the projections, all assets, contributions, and benefit payments, including amounts attributable to the retiree health insurance program, have been included. Our projections of contributions, liabilities, and assets are based on the actuarial assumptions, membership data and benefit provisions that were used for the regular actuarial valuation.

In order to determine projected contributions, liabilities, and assets, certain calculations needed to be made that are not normally required in a regular actuarial valuation. Benefit payout requirements, actuarial liabilities, and payroll were estimated over the 49-year period from 2011 through 2059 by projecting the membership of the Fund over the 49-year period, taking into account the impact of new entrants into the Fund over the 49-year period.

To make the required projections, assumptions needed to be made regarding the age and salary distribution of new entrants as well as the size of the active membership of the Fund. The assumptions regarding the profile of new entrants to the Fund were based on the recent experience of the Fund with regard to new entrants. The size of the active membership of the Fund was assumed to remain constant over the 49-year projection period. The results of our projections are shown in Exhibit 7.

J. CERTIFICATION

This actuarial report has been prepared in accordance with generally accepted actuarial principles and practices and to the best of our knowledge, fairly represents the financial condition of the Public Teachers' Pension and Retirement Fund of Chicago as of June 30, 2010.

Respectfully submitted,

Sandor Goldstein

Sandor Goldstein, F.S.A.
Consulting Actuary

Carl J. Smedinghoff

Carl J. Smedinghoff, A.S.A.
Associate Actuary

Exhibit 7
Public School Teachers' Pension and Retirement Fund of Chicago
Projection of Contributions, Liabilities and Assets

(Board of Education contributions are based on Public Act 96-0889.)
(All dollar amounts are in millions. Actuarial Liability and asset figures as of end of year.)

Fiscal Year	Employee Contri-butions	Required Employer Contri-butions	Additional State Contri-bution	Additional BOE Contri-bution	Required Board of Education Contri-butions [1]	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2011	$177.3	$208.6	$10.4	$11.1	$187.0	$16,812.6	$9,807.0	$7,005.6	58.3%
2012	182.0	214.7	11.0	11.7	192.0	17,316.4	8,959.3	8,357.1	51.7%
2013	186.6	219.3	11.3	12.0	196.0	17,831.5	8,868.0	8,963.5	49.7%
2014	191.3	671.7	11.6	12.3	647.8	18,358.7	9,154.8	9,203.9	49.9%
2015	196.3	689.0	11.9	12.6	664.5	18,899.2	9,449.4	9,449.8	50.0%
2016	201.3	706.9	12.2	13.0	681.8	19,452.6	9,751.4	9,701.2	50.1%
2017	206.5	725.1	12.5	13.3	699.3	20,019.6	10,061.6	9,958.0	50.3%
2018	211.8	743.5	12.8	13.6	717.0	20,600.5	10,379.9	10,220.6	50.4%
2019	217.2	762.5	13.1	14.0	735.4	21,196.6	10,707.7	10,488.9	50.5%
2020	222.9	782.5	13.5	14.4	754.7	21,810.2	11,047.5	10,762.6	50.7%
2021	228.8	803.3	13.8	14.7	774.7	22,443.9	11,402.2	11,041.7	50.8%
2022	234.7	824.1	14.2	15.1	794.8	23,098.3	11,772.2	11,326.1	51.0%
2023	240.8	845.6	14.6	15.5	815.5	23,774.5	12,159.0	11,615.5	51.1%
2024	247.1	867.4	14.9	15.9	836.6	24,472.9	12,563.6	11,909.3	51.3%
2025	253.3	889.4	15.3	16.3	857.8	25,193.2	12,985.9	12,207.3	51.5%
2026	259.6	911.5	15.7	16.7	879.1	25,934.7	13,425.8	12,508.9	51.8%
2027	266.2	934.6	16.1	17.2	901.4	26,699.0	13,886.2	12,812.8	52.0%
2028	272.8	957.9	16.5	17.6	923.8	27,483.9	14,366.1	13,117.8	52.3%
2029	279.5	981.3	16.9	18.0	946.4	28,288.2	14,865.4	13,422.7	52.6%
2030	286.1	1,004.4	17.3	18.4	968.7	29,110.3	15,383.3	13,727.0	52.8%
2031	292.9	1,028.2	17.7	18.9	991.6	29,949.5	15,920.6	14,029.0	53.2%
2032	299.8	1,052.6	18.1	19.3	1,015.2	30,802.0	16,475.2	14,326.8	53.5%
2033	306.8	1,077.0	18.5	19.8	1,038.7	31,664.2	17,045.6	14,618.6	53.8%
2034	313.7	1,101.4	19.0	20.2	1,062.2	32,531.4	17,629.3	14,902.1	54.2%
2035	320.6	1,125.7	19.4	20.7	1,085.7	33,398.9	18,223.7	15,175.2	54.6%

1. Any contributions by the State of Illinois (other than the Additional State Contribution shown above) are to be credited against the Required Board of Education Contributions.

Exhibit 7
Public School Teachers' Pension and Retirement Fund of Chicago
Projection of Contributions, Liabilities and Assets

(Board of Education contributions are based on Public Act 96-0889.)
(All dollar amounts are in millions. Actuarial Liability and asset figures as of end of year.)

Fiscal Year	Employee Contri-butions	Required Employer Contri-butions	Additional State Contri-bution	Additional BOE Contri-bution	Required[1] Board of Education Contri-butions	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2036	327.6	1,150.2	19.8	21.1	1,109.3	34,259.1	18,824.3	15,434.8	54.9%
2037	334.5	1,174.6	20.2	21.6	1,132.8	35,103.9	19,426.4	15,677.4	55.3%
2038	341.4	1,198.8	20.6	22.0	1,156.1	35,924.3	20,024.6	15,899.7	55.7%
2039	348.4	1,223.4	21.1	22.5	1,179.8	36,712.4	20,614.6	16,097.8	56.2%
2040	355.6	1,248.6	21.5	22.9	1,204.2	37,458.9	21,191.7	16,267.2	56.6%
2041	363.0	1,274.6	21.9	23.4	1,229.2	38,153.6	21,751.0	16,402.6	57.0%
2042	370.7	1,301.6	22.4	23.9	1,255.3	38,783.7	22,285.6	16,498.0	57.5%
2043	378.9	1,330.2	22.9	24.4	1,282.9	39,343.9	22,796.0	16,547.9	57.9%
2044	387.7	1,361.3	23.4	25.0	1,312.9	39,845.8	23,295.7	16,550.1	58.5%
2045	398.3	1,398.4	24.1	25.7	1,348.7	40,299.6	23,801.9	16,497.7	59.1%
2046	410.2	1,440.2	24.8	26.4	1,389.0	40,716.3	24,331.7	16,384.6	59.8%
2047	423.3	1,486.1	25.6	27.3	1,433.3	41,092.7	24,890.9	16,201.8	60.6%
2048	437.6	1,536.3	26.4	28.2	1,481.6	41,436.2	25,495.4	15,940.8	61.5%
2049	453.0	1,590.3	27.4	29.2	1,533.8	41,751.6	26,159.3	15,592.2	62.7%
2050	469.5	1,648.3	28.4	30.3	1,589.6	42,043.7	26,898.3	15,145.4	64.0%
2051	487.0	1,709.8	29.4	31.4	1,649.0	42,318.3	27,729.2	14,589.1	65.5%
2052	505.6	1,775.1	30.6	32.6	1,711.9	42,570.2	28,660.3	13,909.9	67.3%
2053	525.2	1,844.0	31.7	33.8	1,778.4	42,801.1	29,707.1	13,093.9	69.4%
2054	545.9	1,916.7	33.0	35.2	1,848.5	43,013.4	30,887.2	12,126.2	71.8%
2055	567.5	1,992.6	34.3	36.6	1,921.7	43,209.0	32,218.1	10,990.9	74.6%
2056	590.4	2,072.8	35.7	38.0	1,999.1	43,392.1	33,722.3	9,669.8	77.7%
2057	614.3	2,156.8	37.1	39.6	2,080.1	43,566.8	35,423.2	8,143.6	81.3%
2058	639.3	2,244.5	38.6	41.2	2,164.7	43,737.8	37,346.1	6,391.6	85.4%
2059	665.4	2,336.2	40.2	42.9	2,253.1	43,911.2	39,520.1	4,391.1	90.0%

1. Any contributions by the State of Illinois (other than the Additional State Contribution shown above) are to be credited against the Required Board of Education Contributions.

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions

The actuarial assumptions used for the June 30, 2010 valuation are summarized below. The assumptions were adopted as of June 30, 2008.

Mortality Rates. For males, the UP-94 Table for Males, rated down three years; for females, the UP-94 Table for Females, rated down two years. For disabled males, the UP-94 Table for Males, rated up 5 years; for disabled females, the UP-94 Table for Males without adjustment.

Termination Rates. The following is a sample of the termination rates that were used for persons who became or will become participants prior to January 1, 2011:

1. Employees With 5 or Less Years of Service - Rates of Termination Per 1,000 Members

Years of Service	Rate of Termination
Less than 1 year	295
1 – 2 years	71
2 – 3 years	70
3 – 4 years	56
4 – 5 years	52

2. Employees With 5 to 10 Years of Service

Age	Rate of Termination Per 1,000 Members
25	46
30	48
35	44
40	37
45	32
50	30
55	30
60	30
62 and later	0

3. Employees With 10 or More Years of Service

Age	Rate of Termination Per 1,000 Members
30	24
35	25
40	19
45	12
50	10
55	10
60	10
62 and later	0

The termination rates used for persons who become participants on or after January 1, 2011 are the same as those above except that rates of termination between ages 55 and 61 are now applied to participants with 20 or more years of service.

Disability Rates. Disability rates based on the recent experience of the Fund. The following is a sample of the disability rates that were used:

Age	Disabilities Per 1,000 Members
30	.7
40	1.0
50	2.0
60	2.5
62 and over	.0

Retirement Rates. For persons who became or will become participants prior to January 1, 2011, rates of retirement for each age from 55 to 75 were used. The following are samples of the rates of retirement that were used:

1. Employees With Less Than 33 Years of Service

Age	Rate of Retirement Per 1,000 Members
55	55
60	77
65	100
70	137
75	1,000

2. Employees With 33 or More Years of Service

Age	Rate of Retirement Per 1,000 Members
55	120
60	200
65	190
70	200
75	1,000

For persons who will become participants on or after January 1, 2011, rates of retirement for each age from 62 to 75 were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement Per 1,000 Members
62	400
64	250
67	300
70	200
75	1,000

Salary Progression. Rates of salary increase, which vary by age. The following is a sample of the assumed rates of salary increase.

Age	Assumed Rate of Increase
25	11.2%
30	8.9%
35	7.3%
40	6.2%
45	5.4%
50	4.7%
55 and later	4.0%

Based on the above salary increase assumption, the assumption regarding general increases in salaries can be considered to be 4% per year.

Interest Rate. 8.0% per year, compounded annually. Of this 8% per year assumption, 3.0% can be attributed to inflation.

Marital Status. 80% of participants were assumed to be married.

Spouse's Age. Male spouses are assumed to be 2 years older than female spouses.

Assumption Regarding Total Service Credit At Retirement. It was assumed that a teacher's total service credit at retirement would be 103.3% of the teacher's regular period of service at retirement.

Actuarial Cost Method.

The projected unit credit actuarial cost method was used. Actuarial gains and losses are reflected in the unfunded actuarial liability. This actuarial cost method was adopted as of August 31, 1991.

Appendix 2

Summary of Principal Provisions

1. Eligibility for Pension. The right to a retirement pension vests (1) after 20 years of validated service, with the pension payable at age 55 or over; or (2) after 5 years validated service, with the pension payable at age 62 or over.

2. Amount of Retirement Pension. For service earned before July 1, 1998, the retirement pension is 1.67% of "final average salary" for each of the first 10 years of validated service, 1.90% for each of the next 10 years, 2.10% for each of the next 10 years, and 2.30% for each year above 30. For service earned after June 30, 1998, the pension is 2.2% of "final average salary" for each year of service.

Service earned before July 1, 1998 can be upgraded to the 2.2% formula through the payment of additional employee contributions of 1% of the teacher's highest salary within the last four years for each year of prior service. Maximum payment is 20% of salary, but all years are upgraded. The number of years for which contributions are required is reduced by one for each three full years of service after June 30, 1998. No contribution is required if the employee has at least 30 years of service.

The maximum pension is 75% of final average salary or $1,500 per month, whichever is greater.

3. Final Average Salary Defined. "Final average salary" for pension computation is the average of the highest rates of salary for any 4 consecutive years of validated service within the last 10 years of service.

4. Reduction in Pension for Early Retirement. Except for retirement after 34 years of service, the retirement pension in the case of retirement prior to age 60 is reduced 1/2 of 1% for each month that the teacher is under age 60.

5. Early Retirement Without Discount. Subject to authorization by the employer, an employee who retires on or before June 30, 2010 may elect to make a one-time contribution and thereby avoid the early retirement reduction. The exercise of this election by the employee also obligates the employer to make a one-time nonrefundable contribution.

6. Non-Duty Disability Retirement. A disability retirement pension is payable in the event of total or permanent disability for teaching service after 10 or more years of service, irrespective of age. The rate of pension is 2.2% of average salary for each year of service after June 30, 1998 and for each year of service that has been upgraded, and 1-2/3% of average salary for each other year of service. Upon disability retirement after 20 years or more of contributing service, but under age 55, the accrued retirement pension is payable, discounted 1/2 of 1% for each month the disabled teacher

is under age 55, down to a minimum of 50 years.

If total service is 20 years or more and the member has attained age 55, the accrued retirement pension is payable without reduction. After 25 years of service, regardless of age, the accrued retirement pension is payable without reduction.

7. Duty Disability Benefit. A duty-connected disability benefit is provided equal to 75% of final average salary upon total incapacity for teaching service as a result of an injury sustained while in the performance of teaching service. The benefit is reduced by "Workers' Compensation" payments.

8. Post-Retirement Increases. Automatic annual increases in pension equal to 3% of the current amount of pension are provided. The increases accrued from the anniversary date of retirement or the 61st birthday, whichever is later.

9. Survivor's Pensions. Pensions are payable to survivors of teachers and pensioners under the following conditions:

Upon the death of a teacher or pensioner occurring on or after July 1, 1981, the maximum benefit is $400 per month to a spouse alone and $600 per month if there are other dependents. Payment of a survivor's pension is conditioned upon marriage having been in effect at least 1 year prior to death. On death after retirement, the total survivor's pension may not exceed retirement or disability pension paid to the deceased pensioner.

Upon the death of a teacher or pensioner occurring after December 31, 1986, the minimum total survivor's pension payable shall be 50% of the earned retirement pension of such teacher or pensioner.

If the surviving spouse is under age 50, and no unmarried minor children under age 18 survive, payment of the survivor's pension is deferred until age 50.

Survivor's pensions are subject to annual automatic increases of 3% of the current amount of pension.

10. Reversionary Pension. By accepting a reduced retirement pension, a member can provide a reversionary pension for a surviving beneficiary. If the reversionary pension was elected on or after January 1, 1984, and the beneficiary survives the date of the teacher's retirement, but does not survive the retired teacher, the teacher's pension shall be restored to the full amount of pension.

11. Refund of Contributions. Upon separation of service, a teacher is entitled to receive a refund of his total contributions and those contributions made on his behalf, without interest.

12. Death Benefits. Upon death while in service, a refund equal to the total contributions less contributions for survivor's pensions is payable without interest to a designed beneficiary or the estate of the teacher. Upon death after retirement, the death benefit consists of the excess, if any, of the total contributions over the total pension payments paid to the member or his beneficiary. In addition, the following death benefit is payable:

Death in service. The amount of the benefit is equal to the last month's salary for each year of validated service up to 6 month's salary but not exceeding $10,000.

Death while on pension. The death benefit is equal to 6 month's salary but not to exceed $10,000 less 1/5 of the death benefit for each year or part of a year that the member has been on pension, down to a minimum of $5,000.

13. Health Insurance Reimbursement. The board may pay each recipient of a retirement, disability, or survivor's pension an amount to be determined by the board, which shall represent partial reimbursement for the cost of the recipient's health insurance coverage, with the total amount of payment not to exceed $65,000,000, or 75% of the total cost of health insurance coverage in any year.

14. Financing. Teachers are required to contribute a total of 9% of salary consisting of 7 1/2% towards the retirement pensions, 1% towards the survivor pension, and 1/2% towards the post-retirement increment. As of September 1981, the Board of Education has been paying 7% of the required teacher contributions for Chicago public school teachers. Charter school contributions may be contributed at various rates by the employers and teachers.

The remainder of the cost of benefits is financed by (1) contributions by the Chicago Board of Education; (2) allocations by the State of Illinois from the State Distributive Fund; and (3) investment income.

15. Retirement Systems Reciprocal Act. The Fund complies with the Retirement Systems Reciprocal Act (Chapter 40 Act 5 Article 20 of the Illinois Compiled Statutes) to provide reciprocal benefits if a member has service credit for other public employment in Illinois.

Persons Who First Become Participants On or After January 1, 2011

The following changes to the above provisions apply to persons who first become participants on or after January 1, 2011:

1. The highest salary for annuity purposes is equal to the average monthly salary obtained by dividing the participant's total salary during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months in that period.

2. For 2010, the final average salary is limited to the Social Security wage base of $106,800. Limitations for future years shall automatically be increased by the lesser of 3% or one-half of percentage change in the Consumer Price Index-U during the preceding month calendar year.
3. A participant is eligible to retire with unreduced benefits after attainment of age 67 with at least 10 years of service credit. However, a participant may elect to retire at age 62 with at least 10 years of service credit and receive a retirement annuity reduced by one-half of 1% for each month that his or her age is under 67.
4. The initial survivor's annuity is equal to 66 2/3% of the participant's earned retirement annuity at the date of death, subject to automatic annual increases of the lesser of 3% or one-half of the increase in the Consumer Price Index-U during the preceding calendar year, based on the originally granted survivor's annuity.
5. Automatic annual increases in the retirement annuity then being paid are equal to the lesser of 3% or one-half the annual change in the Consumer Price Index for all Urban Consumers, whichever is less, based on the originally granted retirement annuity.

Appendix 3

Glossary of Terms used in Report

1. Actuarial Present Value. The value of an amount or series of amounts payable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

2. Actuarial Cost Method or Funding Method. A procedure for determining the actuarial present value of pension plan benefits and for determining an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability.

3. Normal Cost. That portion of the present value of pension plan benefits, which is allocated to a valuation year by the actuarial cost method.

4. Actuarial Accrued Liability or Accrued Liability. That portion, as determined by a particular actuarial cost method, of the actuarial present value of pension benefits which is not provided for by future normal costs.

5. Actuarial Value of Assets. The value assigned by the actuary to the assets of the pension plan for purposes of an actuarial valuation.

6. Unfunded Actuarial Liability. The excess of the actuarial liability over the actuarial value of assets.

7. Projected Unit Credit Actuarial Cost Method. A cost method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the actuarial liability.

Under this method, the actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial liability.

8. Actuarial Assumptions. Assumptions as to future events affecting pension costs.

9. Actuarial Valuation. The determination, as of the valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

10. Vested Benefits. Benefits that are not contingent on an employee's future service.

APPENDIX C

Summary of Certain Provisions of the Indenture

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

Definitions of Certain Terms

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

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

"*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 hereunder 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 5.3 hereof.

"*Bond Resolution*" means Resolution No. 11-0928-RS7, adopted by the Board on September 28, 2011, authorizing the issuance of the Bonds.

"*Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2011A, of the Board issued pursuant to this Indenture.

"*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.

"*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 5.3 hereof.

"*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 5.4(A) and 7.6(B) hereof.

"*Designated Official*" means (i) the President of the Board, (ii) the Chief Financial Officer including any interim Chief Financial Officer of the Board (the "*Chief Financial Officer*") or (iii) any other officer of the Board authorized to perform specific acts and duties hereunder 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(G) hereof.

"*Event of Default*" means any event so designated and specified in Section 8.1 hereof.

"*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 this Trust Indenture, dated as of October 1, 2011, by and between the Board and the Trustee, as from time to time amended and supplemented.

"*Interest Sub-Account*" means the sub-account of that name in the Bond Payment Account established in Section 5.3 hereof.

"*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 or senior debt obligations of other government agencies;

(iv) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (including the Trustee and its affiliates) 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+" 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 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;

(ix) Any Forward Supply Contract; and

(x) Any other investment securities authorized by law and the Investment Policy as permitted investments of Board funds.

"*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) hereof.

"*Outstanding*" means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under this 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 this 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 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 hereof; and

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

"*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 this 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, and the provision of not less than an additional 0.10 times such amounts in such years, and pledged under this 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 5.3 hereof.

"*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 this Indenture as security for the Bonds.

"*Pledged Taxes Account*" means the account of that name in the Debt Service Fund established in Section 5.3 hereof.

"*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 at the time of purchase, 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 5.3 hereof.

"*Prior 2009 Authorization Bonds*" means, collectively, the Series 2010A Bonds, the Series 2010B Bonds, 2010C Bonds, the Series 2010D Bonds, the Series 2010F Bonds, and the Series 2010G Bonds.

"*Prior 2009 Authorization Indentures*" means the Series 2010A Indenture, the Series 2010B Indenture, the Series 2010C Indenture, the Series 2010D Indenture, the Series 2010F Indenture, and the Series 2010G Indenture.

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

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

"*Series 2010F Bonds*" means the Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F, of the Board.

"*Series 2010G Bonds*" means the Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G, of the Board.

"*SLGS*" means United States Treasury Certificates of Indebtedness, Notes and Bonds — State and Local Government Series.

"*State*" means the State of Illinois.

"*State Aid Revenues*" means 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 hereof.

"*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 this 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 5.3 hereof.

"*Swap Payment Date*" has the meaning set forth in Section 5.4(D) hereof.

"*Swap Provider*" means any counterparty to a Swap Agreement.

"*Tax Agreement*" means the Tax Compliance Agreement and Certificate of the Board relating to the Bonds.

"*Term Bonds*" has the meaning set forth in Section 4.1(A) hereof.

"*Trustee*" means The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, and any successor or successors appointed under this Indenture as hereinafter provided. The "principal corporate trust office" of the Trustee means 2 North LaSalle St., Chicago, Illinois 60602 or such other address as is provided by the Trustee.

"*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 this 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 hereunder, 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 Providers, to the extent provided in this 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, each Series thereof constituting a series of Alternate Bonds (as hereinafter defined) of the Board issued pursuant to the Act;

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

Pursuant to Section 13 of the Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge 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 the 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 (i) all or any portion of the Pledged State Aid Revenues or any other source of payment which may be pledged under the Act, and (ii) any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the Bonds and the Prior 2009 Authorization Bonds; *provided, howeve*r, that no Additional Bonds shall be issued except in accordance with the provisions of the Act in existence on the date of issuance of the Additional Bonds.

Provisions Regarding Payment of Bonds

The principal and Redemption Price of the Bonds shall be payable at the principal 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 of the same Series, 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 maturity and aggregate principal amount. 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.

In all cases in which the privilege of transferring or exchanging Bonds is exercised, the Board shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. All bonds surrendered in any such exchanges shall forthwith be canceled by the Trustee. For any exchange or transfer of Bonds, whether temporary or definitive, the Board, the Trustee or the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid. Neither the Trustee nor any Registrar shall 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 notice of such redemption.

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 (i) of the Interest Deposit Sub-Account; and (ii) a 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 (d) Swap Payment Account.

Investment of Funds

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and the Costs of Issuance Fund shall be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters of this 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. In the absence of investment instructions from the Board, the Trustee shall not be responsible or liable for keeping the moneys held by it hereunder fully invested in Investment Securities, but shall immediately notify the Board in the event moneys are being held uninvested hereunder. Nothing contained in this 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 trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. 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.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under 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 reasonably 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 under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds (net of offsetting Swap Agreements). 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 and has received from such Rating Service a written indication that the entering into the Swap Agreement by the Board will not in and of itself cause a reduction or withdrawal by such Rating Service of its unenhanced rating on the Outstanding Bonds.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged State Aid Revenues

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply: the Pledged State Aid Revenues to the payment of the Bonds, the Prior 2009 Authorization Bonds and the provision of not less than an additional .10 times debt service on the Bonds and the Prior 2009 Authorization Bonds. The Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged State Aid Revenues may be allocated and paid to the Board for application as herein provided.

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 may be required by said section, 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.

In furtherance of the general obligation, full faith and credit promise of the Board to pay the principal and Redemption Price of and interest on the Bonds, as described in the Indenture, and in furtherance of the covenant of the Board to pay the Swap Payments, the Board will take all actions necessary to (i) cause the levy and extension of Pledged Taxes, including any Pledged Taxes required to be levied in excess of those levied pursuant to the Bond Resolution, for collection on a timely basis to make all such payments and (ii) to cause such Pledged Taxes when extended for collection to be deposited directly with the Trustee for application pursuant to the Indenture.

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.

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.

Tax Covenants

The Board shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Bond to become subject to federal income taxes in addition to federal income taxes, to which interest on such Bond is subject on the date of original issuance thereof.

The Board shall not permit any of the proceeds of the Bonds, or any facilities financed with such proceeds, to be used in any manner that would cause any Bond to constitute a "private activity bond" within the meaning of Section 141 of the Code. The Board shall not permit any of the proceeds of the Bonds or other moneys to be invested in any manner that would cause any Bond to constitute an "arbitrage bond" within the meaning of Section 148 of the Code or a "hedge bond" within the meaning of Section 149(g) of the Code. The Board shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

Events of Default and Remedies

Events of Default

Each of the following events constitutes and 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 majority 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 rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

All actions against the Board under the Indenture shall be brought in the 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 (other than any amounts not constituting part of the Trust Estate) as follows and in the following order:

a) 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

b) To the payment of the principal of, Redemption Price and interest on the Bonds then due, as follows:

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

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

c) 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.

Restriction on Owners' Actions:

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, 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.

Remedies Conferred By The Act

The Board and the Trustee each acknowledge that Section 15(e) of the Act provides that all covenants of the Board relating to the issuance of the Bonds as Alternate Bonds pursuant to Section 15 of the Act and the conditions and obligations imposed by said Section 15 are enforceable by any Owner of the Bonds, any taxpayer of the Board and the people of the State of Illinois acting through the Attorney General of the State or any designee, and in the event that any such action results in an order finding that the Board has not properly collected and applied the Pledged State Aid Revenues as required by the Act, the plaintiff in any such action shall be awarded reasonable attorneys' fees.

Remedies Not 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

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal or Redemption Price of any of the Bonds when due. No such waiver 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. Copies of each such instrument shall be delivered by the Board to each Fiduciary.

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 of the Indenture, the Trustee or the Owner of any Bond Outstanding hereunder 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 the Indenture 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, 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 in the Indenture;

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

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

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

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

Supplemental Indentures Effective Upon Consent of Owners

Any Supplemental Indenture not effective in accordance with the foregoing provisions shall 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, (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e) with respect to the Bonds, the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non- consenting Owner to the extent otherwise afforded under the Code and Regulations.

Consent of Owners

The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof 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 described in this paragraph 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 paragraph, 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 paragraph 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 ill' 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; (iii) an Opinion of Bond Counsel to the effect that the Subsequent Action will not adversely affect any exemption from federal income tax of the interest paid on the Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

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APPENDIX D

Form of Opinions of Co-Bond Counsel

[Date of Issuance]

Board of Education of the City of Chicago
Chicago, Illinois

Jefferies & Company, Inc.,
As representative of the underwriters
Named in the Contract of Purchase dated
October 13, 2011

The Bank of New York Mellon Trust Company, N.A., as trustee
Chicago, Illinois

Re: Board of Education of the City of Chicago Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Board of Education of the City of Chicago (the "School District"), governed by the Chicago Board of Education (the "Board"), in connection with its issuance of $402,410,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A (the "Bonds"). As Co-Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2011 (the "Indenture") between the Board and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended (the "Act"), a Resolution adopted by the Board on June 22, 2009 (the "Authorizing Resolution"), a Resolution adopted by the Board on September 28, 2011 (the "Bond Resolution") and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

The Bonds are issued as "alternate bonds" under the Act for the purpose of paying for the costs of constructing, acquiring and equipping school and administrative buildings, site improvements and other real and personal property in and for the School District (the "Project").

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

Maturity (December 1)	Amount	Interest Rate
2039	$176,775,000	5.500%
2041	$175,635,000	5.000%
2041	$50,000,000	5.250%

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

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

(b) certified copies of the Authorizing Resolution and the Bond Resolution;

(c) an executed counterpart of the Indenture; and

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

Based upon the foregoing we are of the opinion that:

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

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

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

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

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

6. The Bonds are payable ratably and equally (i) together with the Board's outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A, Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B, Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010C (Taxable Qualified School Construction Bonds - Direct Payment), Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2010D (Taxable Build America Bonds - Direct Payment), Tax-Exempt Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F, Taxable Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G and any bonds issued on a parity therewith under the terms of the Indenture, from the "Pledged State Aid Revenues," being that amount of State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended, or such successor or replacement fund or act as may be enacted in the future, not in excess of $300,000,000, as shall provide for the payment of the bonds issued pursuant to the Authorizing Resolution and the provision of not less than an additional 0.10 times debt service on such bonds in such year, and (ii) from the "Pledged Taxes," being ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

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

8. The interest on the Bonds is excludable for federal income tax purposes from the gross income of the owners of the Bonds. The interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") on corporations (as that term is defined for federal income tax purposes) and individuals. However, for purposes of computing the alternative minimum tax imposed on corporations, the interest on the Bonds is included in adjusted current earnings. The Code contains requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be or continue to be excludable from gross income for federal income tax purposes. Failure to comply with certain of those requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Board has agreed to comply with all of those requirements. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Board comply with those requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

9. The interest on the Bonds is not exempt from present State of Illinois income taxes.

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

Respectfully submitted,

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BOARD OF EDUCATION OF THE CITY OF CHICAGO • Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2011A

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