

PRIVATE PLACEMENT MEMORANDUM DATED JUNE 1, 2006

New Issue

Rating: Fitch Ratings: A+

THE BONDS DESCRIBED HEREIN ARE BEING OFFERED ONLY TO INSTITUTIONAL ACCREDITED INVESTORS CONSTITUTING "ELIGIBLE TAXPAYERS," AS DEFINED IN SECTION 1397E OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. POTENTIAL INVESTORS ARE SOLELY RESPONSIBLE FOR EVALUATING THE MERITS AND RISKS OF AN INVESTMENT IN THE BONDS AND ARE OFFERED HEREBY AN OPPORTUNITY TO OBTAIN INFORMATION FROM THE BOARD (SEE "PRIVATE PLACEMENT" HEREIN).

PRIVATE PLACEMENT MEMORANDUM

\$6,852,800

Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues – Qualified Zone Academy Projects)
Series 2006A

Dated: June 1, 2006

Due: June 6, 2021

The \$6,852,800 Board of Education of the City of Chicago Unlimited Tax General Obligation Bonds (Dedicated Revenues-Qualified Zone Academy Projects) Series 2006A (the "Bonds") will be issued as fully registered bonds in denominations as described herein. Principal of the Bonds will be payable at maturity by Amalgamated Bank of Chicago, Chicago, Illinois, as bond registrar and paying agent (the "Registrar") for the Bonds. There will be no interest payments on the Bonds. See "THE BONDS" herein.

The Bonds are being issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended (the "Code"). As such, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Code, who own the Bonds will be entitled to a credit against taxable income (see "Federal Tax Credit" herein). Owners of the Bonds not constituting "eligible taxpayers" within the meaning of Section 1397E of the Code will not be entitled to the credit applicable to qualified zone academy bonds thereunder.

The issuer of the Bonds is the Board of Education of the City of Chicago (the "Board"). The Bonds are a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds are additional bonds payable, on a parity basis with the Prior Obligations, from Pledged Revenues (as defined herein) and, if insufficient, from Pledged Taxes (as defined herein). For additional information, see "SECURITY FOR THE BONDS" herein.

The proceeds from the sale of the Bonds will be used to (i) renovate, rehabilitate and equip certain qualified zone academies located within the school district governed by the Board (the "School District"), and (ii) pay for the costs of issuance of the Bonds.

The Bonds are being offered subject to the delivery of approving legal opinions of Mayer, Brown, Rowe & Maw, LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks; by Wildman Harrold Allen & Dixon, LLP, Chicago, Illinois, as Issuer's Counsel; and by Lawrence & Associates, Chicago, Illinois, as Disclosure Counsel. Delivery of the Bonds is expected to be made in Chicago on or about June 7, 2006.

MATURITIES, PRINCIPAL AMOUNTS, CREDIT RATE AND PRICES

<u>Maturity (June)</u>	<u>Principal Amount</u>	<u>Credit Rate**</u>	<u>Price</u>
2021	\$ 6,852,800	6.16 %	95.25%

** The amount of the federal tax credit to which an eligible taxpayer will be entitled is the principal amount of the Bonds owned by the eligible taxpayer on the relevant credit date, times the credit rate. See "Federal Tax Credit – Amount of Credit" herein.

USE OF THIS PRIVATE PLACEMENT MEMORANDUM

This Private Placement Memorandum is being furnished to a limited number of potential investors solely for the purpose of each such investor's consideration of the purchase of the Bonds described herein, and is not to be used for any other purpose or made available to anyone not directly concerned with the decision regarding such purchase. This Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor is it to be construed as a contract or agreement between the Board and any purchaser of the Bonds. Interested investors are advised to contact the Board to secure further information concerning the transaction described herein (see "PRIVATE PLACEMENT").

No dealer, broker, salesman or other person has been authorized by the Board to give any information or to make any representation with respect to the Bonds, other than those contained in this Private Placement Memorandum (or otherwise obtained by an investor directly from the Board), and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board. The Board has furnished information contained herein. The information and opinions expressed herein are subject to change without notice and neither the delivery of this Private Placement Memorandum nor sale of the Bonds shall, under any circumstance, create any implication that there has been no change since the date hereof (or since the date of any information included herein that is dated other than the date hereof) in the information contained herein, including that relating to operations or financial affairs of the Board.

Where statutes, reports, agreements or other documents are referred to herein, reference should be made to such statutes, reports, agreements or other documents for more complete information regarding the rights and obligations of parties thereto, the facts and opinions contained therein and the subject matter thereof.

BOARD OF EDUCATION
THE CITY OF CHICAGO

MEMBERS

Michael W. Scott
President

Clare Muñana
Vice President

Norman R. Bobins
Dr. Tariq Butt
Alberto A. Carrero, Jr.
Roxanne Ward
Rufus Williams

MANAGEMENT

Arne Duncan
Chief Executive Officer

Barbara Eason-Watkins
Chief Education Officer

David Vitale
Chief Administrative Officer

Sean P. Murphy
Chief Operating Officer

John Maiorca
Chief Financial Officer

Heather A. Obora
Chief Purchasing Officer

Patrick J. Rocks
General Counsel

Mayer, Brown, Rowe & Maw, LLP
Bond Counsel

D.A. Davison & Co.
A.C. Advisory, Inc.
Financial Advisors

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE BOARD OF EDUCATION OF THE CITY OF CHICAGO	2
General.....	2
Governing Body.....	2
School System.....	6
Capital Improvement Program.....	6
Educational Reform Initiatives.....	8
Chicago Teachers Union.....	9
Recent Financial Information.....	10
General Operating Fund Balances.....	10
Outstanding Debt Obligations.....	12
The Board's Overlapping Debt Schedule.....	13
The Board's Debt Service Schedule.....	14
Legal Debt Margin Information	15
The Board's Interest Rate Swap Agreements.....	16
Employee Pension Obligations.....	17
Other Local Government Units.....	18
Other Public Bodies.....	20
THE BONDS	22
General.....	22
Maturity	22
No Redemption	22
Registration, Transfer and Exchange.....	22
SECURITY FOR THE BONDS	23
General.....	23
General State Aid.....	24
Bonds are Obligations of the Board.....	27
FEDERAL TAX CREDIT	27
General.....	28
Eligible Taxpayer.....	29
Amount of Credit	29
Limitation on Credit.....	30
Deduction of Unused Credit Amount	30
Passive Activity Rules	30
Credit Amount Included in Income as Deemed Interest.....	30
Original Issue Discount	30
Bond Premium	31
Tax Basis.....	32
Credit's Effect on Estimated Income Tax Payments	32
Sale, Redemption or Retirement of the Bonds.....	32
U.S. Federal Information Reporting and Backup Withholding	32
Illinois Income Tax Consequences	33
REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES.....	33

	General.....	33
	Assessment.....	33
	Equalization.....	35
	Exemptions.....	35
	Tax Levy.....	37
	Collection.....	38
	Property Tax Extension Limitation Law; Issuance of Alternate Bonds.....	
38	Truth in Taxation.....	39
	Bond Issue Notification Act.....	39
	Property Tax Information.....	
.....	40	
	Assessed, Equalized Assessed and Estimated Value.....	41
	Property Tax Extensions and Collections.....	42
	Real Property Tax Rates.....	43
	CONTINUING DISCLOSURE EXEMPTION.....	44
	FINANCIAL STATEMENTS.....	44
	RATING.....	44
	FINANCIAL ADVISOR.....	44
	PRIVATE PLACEMENT.....	44
	CERTAIN LEGAL MATTERS.....	45
	MATERIAL LITIGATION.....	45
	AUTHORIZATION.....	49

EXHIBITS

- A - Financial Statements of the Board of Education of the City of Chicago
- B - Form of Investment Letter
- C - Form of Bond Opinion/Board of Education of the City of Chicago

The following summary should be read in conjunction with the full text of this Private Placement Memorandum, including the Exhibits hereto.

SUMMARY STATEMENT

Purpose of Issue	The proceeds of the Bonds are expected to be used to renovate, rehabilitate and equip certain qualified zone academies for use by the Board, and to pay for the costs of issuance of the Bonds.
Authorization	The Bonds are issued as “qualified zone academy bonds” under Section 1397E of the Internal Revenue Code of 1986, as amended (the “Code”).
Security	The Bonds are a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds are payable from Pledged Revenues of the Board and, to the extent that Pledged Revenues are insufficient, from Pledged Taxes. See “SECURITY FOR THE BONDS.”
Maturity	June 6, 2021
Redemption	The Bonds are not subject to optional or mandatory redemption.
Interest	The Bonds do not bear interest.
Federal Tax Credit	An “eligible taxpayer” owning a Bond on the “credit allowance date” will be entitled to a credit against its Federal income tax equal to the product of the outstanding principal amount of such Bond on such date multiplied by 6.16%, the credit rate.
Eligible Taxpayer	An “eligible taxpayer” includes only a bank within the meaning of Section 581 of the Code, an insurance company to which subchapter L of the Code applies, and a corporation actively engaged in the business of lending money.
Credit Allowance Date	June 6, 2007 and each succeeding June 6 thereafter until Maturity.

For additional information regarding the Federal tax credit available to eligible taxpayers who are owners of the Bonds, see “FEDERAL TAX CREDIT” herein.

\$6,852,800

**BOARD OF EDUCATION OF THE CITY OF CHICAGO
UNLIMITED TAX GENERAL OBLIGATION BONDS (DEDICATED REVENUES-
QUALIFIED ZONE ACADEMY PROJECTS) SERIES 2006A**

INTRODUCTION

THE INFORMATION CONTAINED IN THIS PRIVATE PLACEMENT MEMORANDUM IS QUALIFIED IN ITS ENTIRETY BY EACH POTENTIAL INVESTOR'S OPPORTUNITY TO CONTACT THE BOARD ABOUT THE INFORMATION CONTAINED HEREIN. EACH POTENTIAL INVESTOR IS ADVISED TO REVIEW CAREFULLY THIS DOCUMENT AND EACH OF THE ATTACHED EXHIBITS PRIOR TO MAKING AN INVESTMENT DECISION WITH RESPECT TO THE BONDS.

The purpose of this Private Placement Memorandum, including the cover page and the Exhibits hereto, is to set forth information in connection with the sale by the Board of Education of the City of Chicago (the "Board") of its \$6,852,800 Unlimited Tax General Obligation Bonds (Dedicated Revenues – Qualified Zone Academy Projects), Series 2006A (the "Bonds").

The Bonds are a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds will be issued by the Board pursuant to the provisions of the School Code, 105 Illinois Compiled Statutes 5, *et seq.*, as amended (the "School Code"); the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, *et seq.*, as amended (the "Debt Reform Act"); an authorizing resolution adopted by the Board on September 22, 2004 (the "2004 Authorization"); and a bond resolution adopted by the Board on April 26, 2006 (the "Bond Resolution" and collectively with the 2004 Authorization, the "Board Resolution").

The Bonds are additional bonds payable from Pledged Revenues (as described herein) and Pledged Taxes (as described herein) and issued on a parity basis with the Board's Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004C, its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004D, its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004E, its Unlimited Tax General Obligation Bonds (Dedicated Revenues – Albany Park Academy Project), Series 2004F, its Unlimited Tax General Obligation Bonds (Dedicated Revenues – Benito Juarez Community Academy Project), Series 2004G, its Unlimited Tax General Obligation Bonds (Dedicated Revenues – DePriest Elementary School Project), Series 2004H, its Unlimited Tax General Obligation Bonds (Dedicated Revenues – Westinghouse High School Project), Series 2005C, its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005D and its

Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2005E (collectively, the “Outstanding Bonds”). See “SECURITY FOR THE BONDS” herein.

THE BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

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

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

Michael W. Scott is President of the Board. He is currently President of MS & Associates, LLC and he was formerly Vice President of Regulatory Affairs for Comcast Corporation. He is also a commissioner on the Public Building Commission of Chicago. He was formerly the Executive Director of the Lawndale People’s Planning and Action Council and ultimately, Vice President of Pyramidwest Development Corporation. He also has served under the late Mayor Harold Washington as Special Assistant to the Mayor, Director for the Mayor’s Office of Special Events, and Chief Cable Administrator for the City of Chicago’s Office of Communication. Prior to being elected President, Mr. Scott served as a member of the Board and chaired its committee on real estate. Mr. Scott currently serves on the Board of Directors for the Community Bank of Lawndale and for a number of civic and charitable organizations, including, among others, Mount Sinai Hospital, Better Boys Foundation and the Chicago Historical Society.

Clare Muñana is Vice President of the Board and a public sector management and international consultant with over 20 years of domestic and international business experience. Ms. Muñana is a graduate of Boston College, where she received her Bachelor of Arts degree in Political Science and Spanish Literature. She earned a Masters in International Economics and Politics from the School of Advanced International Studies of Johns Hopkins University and a Masters of Management from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana is active in several civic and cultural organizations.

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

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

Alberto A. Carrero, Jr. is Senior Vice President and Public Banking Manager of Banco Popular North America ("Banco Popular"), the country's largest Hispanic-owned bank. He also serves as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago. Prior to joining Banco Popular, Mr. Carrero worked for the Federal Deposit Insurance Company (FDIC) in the New York Region. He graduated from the University of Puerto Rico with a degree in Business Administration and Finance. Mr. Carrero has been the recipient of numerous awards from Illinois and New York City and State agencies for excellence in business.

Roxanne Ward is Vice President and Corporate Secretary/Corporate Liaison of Ariel Capital Management, LLC ("Ariel"), a Chicago-based investment management firm founded in 1983. Prior to joining Ariel, Roxanne spent four years working for the Chicago Park District as the First Assistant General Counsel, Board Liaison and Legislative Liaison. She spent more than 15 years working as a private sector attorney in the Chicago offices of Skadden, Arps, Slate, Meagher, and Flom and Mayer, Brown & Platt. Ms. Ward has been actively involved with many civic and community organizations. She is a Co-Chair of the Mayoral Policy Caucus on Prisoner Reentry and serves on the Board of Directors of the Safer Foundation. She is also a former member of the Desegregation Monitoring Commission and of the Boards of the Illinois Facilities Fund and Congo Square Theater Company. Ms. Ward graduated Phi Beta Kappa from the University of Chicago with a Bachelor of Arts degree in Social Service Administration ("SSA"), followed by a Masters of Arts degree in SSA from the University of Chicago. She subsequently obtained her Juris Doctor from Harvard Law School.

Rufus Williams heads Olympus, LLC as its President and Chief Executive Officer. Mr. Williams has spent over 25 years in financial services and management with nearly 15 of those years in wealth and business management. Prior to founding Olympus, LLC, Mr. Williams worked for 10 years in various positions including Chief Financial Officer and Controller at Harpo Entertainment Group, a company best known for the production of the top-rated talk show, “The Oprah Winfrey Show.” He began his career at Arthur Andersen & Co., where he rose to the level of Experienced Audit Manager. Mr. Williams left after 10 years to take a position as Corporate Audit Manager at Baxter Healthcare Corporation. Mr. Williams graduated Magna Cum Laude from Southern University of Baton Rouge, Louisiana with a degree in Accounting.

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

Member	Term Expires
Michael W. Scott, President.....	June 30, 2007
Clare Muñana, Vice President	June 30, 2006
Norman R. Bobins.....	June 30, 2006
Dr. Tariq Butt.....	June 30, 2007
Alberto A. Carrero, Jr.	June 30, 2006
Roxanne Ward.....	June 30, 2007
Rufus Williams.....	June 30, 2007

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.....	Arne Duncan
Chief Education Officer.....	Barbara Eason-Watkins
Chief Administration Officer.....	David Vitale
Chief Operating Officer.....	Sean P. Murphy
Chief Financial Officer.....	John Maiorca
Chief Purchasing Officer.....	Heather A. Obora
General Counsel.....	Patrick J. Rocks

Arne Duncan is the Chief Executive Officer of the Board. Mr. Duncan was formerly Deputy Chief of Staff for the previous Chief Executive Officer of the Board and, prior to that, directed the Ariel Education Initiative. He received a Bachelor of Arts degree in Sociology from Harvard University. Mr. Duncan serves on the boards of directors for the Ariel Education Initiative, The Children’s Center,

City Year, the Illinois Council Against Handgun Violence and the South Side YMCA, and serves on the Visiting Committee for the University of Chicago's School of Social Service Administration.

Barbara Eason-Watkins is the Chief Education Officer of the Board. Dr. Eason-Watkins is a nationally recognized school principal from Chicago's Woodlawn community who has spent her entire 29-year professional career in the schools, working with students, teachers and parents. Since 1988, Dr. Eason-Watkins has been principal of McCosh Elementary School in Chicago. A native of Detroit, Michigan, she received a Bachelor's degree in elementary education from the University of Michigan, a Masters degree in educational administration and supervision from Chicago State University, and a Doctorate in education, with a specialty in curriculum and instruction, from Loyola University, Chicago.

David Vitale is the Chief Administration Officer of the Board, overseeing all of the educational support departments, including Finance, Budget, Operations, Human Resources, Technology, Security, Procurement and Business Diversity. In February of 2003, Mr. Vitale joined the Board as Senior Advisor to the Chief Executive Officer, on a full-time, pro-bono basis to improve efficiencies of the school system. Prior to joining the Board, Mr. Vitale served as President and Chief Executive Officer of the Chicago Board of Trade. 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 CBOT. Mr. Vitale is a graduate of Harvard University and earned a Masters of Business Administration from the University of Chicago.

Sean P. Murphy is the Chief Operating Officer of the Board. Prior to his current appointment, Mr. Murphy served as the Board's Chief Purchasing Officer. Prior to his service with the Board, he served as Deputy Commissioner for the City's Department of Aviation, acting as the Business Director for the O'Hare Modernization Program. Mr. Murphy also served as Deputy Procurement Officer for the City's Department of Procurement Services. Prior to his service with the City, Mr. Murphy served for over 10 years with Raytheon Engineers and Constructors, Inc. and RR Donnelley in various procurement roles, up to and including Project Procurement Manager, executing design-build projects and strategic sourcing initiatives. Mr. Murphy received a Bachelor of Science degree in Mathematics from Colorado State University and a Masters of Business Administration from DePaul University.

John Maiorca is the Chief Financial Officer of the Board. Prior to his current appointment, he served as the Budget Director for the Board's Office of Management and Budget. Prior to his service with the Board, Mr. Maiorca served as First Deputy Director for the City of Chicago's Departments of Revenue and Office of Budget and Management. Mr. Maiorca received a Masters of Urban Planning degree from the City University of New York and a Bachelor of Arts from the City University of New York.

Heather A. Obora is the Chief Purchasing Officer of the Board. Ms. Obora previously served as the Board's Deputy Chief Financial Officer and Deputy Controller-Disbursements. Prior to joining the Board, Ms. Obora was the Comptroller for the Clerk of the Circuit Court of Cook County, a Senior Tax Accountant for Crowe Chizek in Oak Brook, Illinois and a Senior Accountant for Barbich, Longcrier, Hooper & King, a public accounting firm in Bakersfield, California. Ms. Obora holds a Bachelor of Science degree in Business Administration with a Concentration in Accounting from California State University-Bakersfield.

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 625 attendance centers consisting of 484 elementary schools, 119 high schools and 22 charter schools serving 420,982 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
2005/2006	308,993	111,989	420,982
2004/2005	320,719	106,093	426,812
2003/2004	330,196	104,223	434,419
2002/2003	337,525	101,064	438,589
2001/2002	338,445	99,173	437,618
2000/2001	339,281	96,189	435,470

Capital Improvement Program

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

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

3. Educational enhancements, including new campus parks and play lots.

As part of its Capital Improvement Program the Board has determined to undertake the renovation, rehabilitation and equipping of certain qualified zone academy bond projects.

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

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

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

Summary of Work Performed and Expenditures. Since the program's inception, over 1,485 new permanent classrooms have been constructed, with more underway, increasing capacity to accommodate approximately 39,085 additional students. These new classrooms are distributed throughout 29 new schools, 15 replacement schools, 37 additions and 27 annexes. Additionally, 2,479 renovations have been completed to date including new roofs at 372 schools, new windows for 347 schools, and masonry work for 330 schools. Over 779 local area network projects have been completed. The Board anticipates undertaking a similar number of renovation projects and installing local area networks in its remaining schools in the coming years. Finally, approximately 317 play lots and 16 athletic fields have been renovated to provide students with safe facilities for play and sports.

To finance the Capital Improvement Program, the Board has issued approximately \$3.9 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). "Alternate Bonds" are certain types of general obligation bonds issued pursuant to Section 15 of the Debt Reform Act, which are excluded from the direct referendum requirements of the Limitation Law. As of March 31, 2006, approximately \$3.7 billion of the proceeds of such Alternate Bonds have been spent, and substantially all of the net proceeds remaining have been "encumbered" (i.e., obligated for future expenditure on identified projects).

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

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

Educational Reform Initiatives

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

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

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

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

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

Educational Results. There continue to be many positive educational trends at CPS. The 2005 results from the Iowa Test of Basic Skills show that 43.7% of elementary school students are reading at or above national norms, while 46.6% are performing at or above national norms in math. Overall, reading scores are up 17.2 percentage points and math 16.6 percentage points since 1996, the first full school year Mayor Daley assumed responsibility for the schools. Additionally, in high schools, the dropout rate has declined, the graduation rate has continued to grow, average ACT scores have increased, and more students are taking advanced placement classes than ever before.

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

Chicago Teachers' Union and Other Employee Groups

For its 2005 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, 2005, approximately 74% of the Board's employees were represented by the Chicago Teacher's Union (the "CTU") and approximately 16% were represented by six other unions.

The Board's current four-year agreement with the CTU expires June 30, 2007. The contract provides for base salary increases for all teachers of four percent (4%) for each fiscal year through 2007. The 4% increase for fiscal year 2007 may be adjusted upward in such fiscal year depending on the total amount of general fund revenue received by the Board in that fiscal year.

The remaining six labor unions also hold four year contracts with the Board. All of these agreements expire on June 30, 2007. Employees represented by these unions will experience a base salary increase of 4% for each fiscal year through 2007.

The Board has sought certain methods of alternative dispute resolution to reduce the number of union grievances and overall labor litigation. A voluntary grievance mediation program, 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.

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

Recent Financial Information Concerning the Board

For fiscal years 1996 through 2005, the Board adopted and achieved a balanced budget. On July 27, 2005, the Board also adopted a balanced budget for fiscal year 2006 that reflected total resources, including \$50.0 million of available fund balances and appropriations of \$4.2 billion for the General Operating Fund.

The most recent audited financial statements are for the fiscal year ended June 30, 2005 and are included as EXHIBIT A.

General Operating Fund Balances. As of June 30, 2005, the Board had a fund balance of \$391.0 million, of which \$142.4 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was \$248.5 million, \$190.0 million of which was designated to provide operating capital. The fiscal year 2006 budget re-appropriated \$50.0 million of ending fiscal year 2005 fund balance, \$30.0 million for specific purposes and \$20.0 million to balance the general fund.

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

As of June 30, Actual

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Budgeted 2006⁽⁴⁾
Revenues:						
Property Taxes	\$1,379,010	\$1,429,307	\$1,495,382	\$1,520,557	\$1,587,803	\$1,626,968
Replacement Taxes	71,230	57,193	48,852	61,897	94,546	82,051
State Aid	1,275,707	1,336,586	1,307,229	1,329,390	1,417,423	1,506,998
Federal Aid	552,311	539,573	602,677	703,821	746,403	838,018
Investment Income	42,501	16,505	20,803	18,779	14,003	16,500
Other	<u>78,107</u>	<u>66,917</u>	<u>76,609</u>	<u>87,545</u>	<u>85,377</u>	<u>86,465</u>
Total Revenues	<u>\$3,398,866</u>	<u>\$3,446,081</u>	<u>\$3,551,552</u>	<u>\$3,721,989</u>	<u>\$3,945,555</u>	<u>\$4,157,000</u>
Expenditures						
Instruction	\$1,995,423	\$2,152,958	\$2,214,781	\$2,355,114	\$2,429,014	\$2,585,807
Pupil Services	303,071	311,628	320,380	327,653	323,225	358,363
Support Services	730,187	750,111	764,002	770,629	821,583	922,667
Food Services	166,365	160,063	170,238	180,588	173,872	188,175
Community Services	73,718	47,523	47,253	49,933	42,325	37,499
Capital Outlay	394					
Teachers' Pension	65,045	65,045	65,045	65,045	65,045	74,900
Other	<u>18,916</u>	<u>6,558</u>	<u>13,742</u>	<u>9,548</u>	<u>7,332</u>	<u>39,589</u>
Total Expenditures	<u>\$3,353,119</u>	<u>\$3,493,886</u>	<u>\$3,595,441</u>	<u>\$3,758,510</u>	<u>\$3,862,396</u>	<u>\$4,207,000</u>
Revenues in Excess of (less than) Expenditures	\$ 45,747	\$ (47,805)	\$ (43,889)	\$ (36,521)	\$ 83,159	\$ (50,000)
Other Financing Sources	<u>(46,797)⁽²⁾</u>	<u>1,527</u>	<u>7,711</u>	<u>15,071</u>	<u>328</u>	<u>—</u>
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	\$ (1,050)	\$ (46,278)	\$ (36,178)	\$ (21,450)	-	\$ (50,000)
Fund Balance, Beginning of Period	564,952	411,412	365,134	328,956	307,506	390,993
Impact of Adopting GASB No. 33 ⁽³⁾	<u>(152,490)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund Balance, End of Period	\$ 411,412	\$ 365,134	\$ 328,956	\$ 307,506	\$ 390,993	\$ 340,993
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	\$ 149,675	\$ 118,726	\$ 78,879	\$ 67,542	\$ 97,313	\$ 97,313
Specific Purposes	<u>60,217</u>	<u>36,525</u>	<u>41,718</u>	<u>43,454</u>	<u>45,134</u>	<u>15,134</u>
Total Reserved Fund Balance	<u>\$ 209,892</u>	<u>\$ 155,251</u>	<u>\$ 120,597</u>	<u>\$ 110,996</u>	<u>\$ 142,447</u>	<u>\$ 112,447</u>
Unreserved:						
Designated to Provide						
Operating Capital	\$ —	\$ 201,500	\$ 161,233	\$ 171,300	\$ 190,000	\$ 190,000
Undesignated	<u>201,520</u>	<u>8,383</u>	<u>47,126</u>	<u>25,210</u>	<u>58,546</u>	<u>38,546</u>
Total Unreserved	<u>\$ 201,520</u>	<u>\$ 209,883</u>	<u>\$ 208,359</u>	<u>\$ 196,510</u>	<u>\$ 248,546</u>	<u>228,546</u>
Total Fund Balance	\$ 411,412	\$ 365,134	\$ 328,956	\$ 307,506	\$ 390,993	\$ 340,993

- (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 EXHIBIT A - Financial Statements of the Board of Education of the City of Chicago.
- (2) Net Operating Transfer in Fiscal Year 2001 included \$48.8 million transferred to the Debt Service Funds to fund future debt service payments other than for the Bonds.
- (3) GASB No. 33 established new accounting rules which affect the timing of recognition of certain revenues. The impact of adoption resulted in a one-time restatement of opening fund balance and a deferral of revenue.
- (4) Amounts are derived from the Fiscal Year 2006 Budget as published by Budget Department. The Fiscal Year 2006 Budget re-appropriated \$30.0 million of ending fiscal year 2005 fund balance as reserved for specific purposes.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately \$3.86 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt consists of approximately \$458.0 million aggregate principal amount of leases with The Public Building Commission of Chicago (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS--Other Public Bodies--The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

**Board's Overlapping Debt Schedule
as of May 1, 2006
(Dollars in Thousands)**

	Amount
Direct Debt	
The Bonds	\$ 6,853 ⁽⁸⁾
Total Prior Bonds	3,860,103
Leases Securing PBC Bonds (principal component)	<u>458,030</u>
Total Direct Debt	<u>\$4,324,986</u>

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt ⁽¹⁾			
City	\$5,814,866	100.00%	\$5,814,866
School Finance Authority	268,075	100.00%	268,075
Community College District	56,105	100.00%	56,105
Chicago Park District ⁽²⁾	538,045	100.00%	538,045
Water Reclamation District	1,256,985	46.44%	583,694
Cook County	3,070,610	45.47%	1,396,271
Forest Preserve District	132,855	45.47%	<u>60,412</u>
Total Overlapping Debt			<u>\$ 8,717,467</u>
Total Direct and Overlapping Debt			<u>\$13,042,453</u>

Selected Debt Statistics

Population (2000) ⁽⁴⁾	2,896,016
Equalized Assessed Valuation (2004) ^{(3) (5)}	\$55,283,639
Estimated Fair Market Value (2003) ⁽⁶⁾	\$263,482,258

	<u>Per Capita</u>⁽⁷⁾	<u>EAV</u>	<u>FMV</u>
Direct Debt	\$1,493.43	7.82%	1.641%
Total Direct and Overlapping Debt	\$4,503.58	23.59%	4.950%

- (1) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the following units of government:
- | | |
|----------------------------|--------------|
| Community College District | \$56,105,000 |
| Chicago Park District | \$27,715,000 |
- (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) Cook County only.
- (4) Source: United States Census Bureau.
- (5) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
- (6) Source: The Civic Federation.
- (7) Per Capita amounts are not expressed as dollars in thousands.
- (8) Preliminary; to be issued.

Board's Debt Service Schedule

Calendar Year	Prior Bonds ^{(1),(2),(3)}	PBC Leases ⁽¹⁾	The Bonds	Total Annual Debt Service ⁽¹⁾
2006	\$174,299,256	\$51,990,050		\$226,289,306
2007	188,897,511	52,037,000		240,934,511
2008	193,508,772	52,096,838		245,605,609
2009	268,500,259	52,103,825		320,604,084
2010	273,251,450	52,163,338		325,414,787
2011	287,963,729	52,232,025		340,195,754
2012	268,360,006	52,318,625		320,678,631
2013	289,409,665	52,359,513		341,769,177
2014	278,563,246	52,430,550		330,993,796
2015	289,363,667	52,467,613		341,831,280
2016	281,167,909	52,519,550		333,687,459
2017	278,270,596	52,600,125		330,870,721
2018	283,692,010	52,664,600		336,356,610
2019	308,341,511	30,635,500		338,977,011
2020	338,212,880			338,212,880
2021	338,229,261		\$6,852,800	345,082,061
2022	307,295,693			307,295,693
2023	329,428,839			329,428,839
2024	326,079,735			326,079,735
2025	322,438,017			322,438,017
2026	322,448,782			322,448,782
2027	292,259,858			292,259,858
2028	384,243,778			384,243,778
2029	323,490,940			323,490,940
2030	323,536,378			323,536,378
2031	323,569,061			323,569,061
2032	93,969,892			93,969,892
2033	62,097,096			62,097,096
2034	46,515,698			46,515,698
2035	31,449,780			31,449,780
2036	<u>18,344,828</u>			<u>18,344,828</u>
	<u>\$7,847,200,101</u>	<u>\$710,619,152</u>	<u>\$6,852,800</u>	<u>8,564,672,052</u>

- (1) Debt service payments include principal and interest due to and including the following January 1.
- (2) Interest on \$303,000,000 of variable rate, Series 2000B, Series 2000C and Series 2000D Bonds is calculated at an assumed rate of 6% per annum; although actual rates may vary, interest on \$183,775,000 of auction rates Series 2003B Bonds is calculated at the swap rate of 3.782% based on a 360-day year consisting of twelve 30-day months; interest on approximately \$72,575,000 of auction rate Series 2003D-1 and Series 2003D-2 Bonds is calculated at an assumed rate of 5% per annum; interest on \$185,350,000 of auction rates Series 2003D-2, Series 2003D-3 and Series 2003D-4 Bonds is calculated at the swap rate of 3.771% based on a 360-day year consisting of 12 30-day months; interest on \$298,075,000 of auction rates Series 2004B Bonds is calculated at the swap rate of 3.5439% based on a 360-day year consisting of 12 30-day months. Interest on \$222,080,000 of variable rate Series 2004C, Series 2004D and Series 2004E Bonds is calculated at an assumed rate of 4.5% per annum, although actual rates may vary.
- (3) Includes Other Outstanding General Obligation Alternate Bonds.

Legal Debt Margin Information
As of June 30, 2005
(Dollars in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Debt Limit	\$5,587,224	\$5,794,463	\$6,256,611	\$7,338,200	\$7,629,142
General obligation.....	1,161,290	1,069,366	979,083	917,855	764,761
Less: Amount set aside for repayment of bonds.....	(38,379)	(37,965)	(37,486)	(36,226)	(38,913)
Total net Debt applicable to Limit (A).....	<u>1,122,911</u>	<u>1,031,401</u>	<u>941,597</u>	<u>881,629</u>	<u>725,848</u>
Legal debt margin	<u>\$4,464,313</u>	<u>\$4,763,062</u>	<u>\$5,315,014</u>	<u>\$6,456,571</u>	<u>\$6,903,294</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>20.10%</u>	<u>17.80%</u>	<u>15.05%</u>	<u>12.01%</u>	<u>9.51%</u>

(A) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect the Other Outstanding General Obligation Alternate Bonds (in the aggregate principal amount of \$3.86 billion), which do not count against the debt limit unless the tax levy supporting them is extended for collection.

Board's Interest Rate Swap Agreements

Series	Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2003B	Goldman Sachs	2/4/2003	2/13/2003	\$ 110,265,000	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 – 3/10/33: 70% of Libor
	Bank of America	2/4/2003	2/13/2003	73,510,000	3/1/2033	3.782%	
2003D	Lehman Brothers	12/8/2003	12/12/2003	\$ 95,350,000	3/1/2034	3.771%	70% of Libor
	Goldman Sachs	12/8/2003	12/12/2003	\$ 90,000,000	3/1/2034	3.771%	70% of Libor
2004B	Goldman Sachs	3/31/2004	4/6/2004	\$ 178,845,000	3/1/2032	3.5439%	70% of Libor
	Bear Stearns	3/31/2004	4/6/2004	119,230,000	3/1/2032	3.5439%	70% of Libor
	Bear Stearns	3/31/2004	4/6/2004	298,075,000	3/1/2032	70% of Libor	X% of Libor ⁽¹⁾
1997A	Bank of America	8/19/2005	12/1/2007 ⁽²⁾	\$ 100,000,000	12/2/2030	5.25%	70% of Libor + .28%
2005A	Loop Capital Markets ⁽³⁾	10/5/2005	11/1/2005	\$ 116,151,000	12/1/2031	BMA Index	70% of Libor + 0.524bp
	Merrill Lynch & Co.	10/5/2005	11/1/2005	77,434,000	12/2/2031	BMA Index	80.76% of Libor
2005D-1 & 2005E	Loop Capital Markets ⁽³⁾	11/30/2005	12/8/2005	\$ 287,055,000	3/1/2036	3.6617%	70% of Libor

⁽¹⁾ The percentage of Libor is a floating rate based on the following rate scale:

Libor	Percentage of Libor
Less than 1.55%	90%
Greater than 1.55% but less than 2.35%	77%
Greater than 2.35% but less than 3.45%	73%
Greater than 3.45% but less than 4.10%	71%
Greater than 4.10% but less than 6.00%	70%
Greater than 6.00%	65%

⁽²⁾ Only upon exercise of option.

⁽³⁾ Loop Capital Markets backed by Deutsche Bank.

Interest Rate Swap Agreements. The swaps represented by the Series 2003B Swap Agreements, the Series 2003D Swap Agreements, the Series 2004B Swap Agreements, the 1997A Swap Agreement, the 2005A Swap Agreements, the 2005D-1 Swap Agreement and the 2005E Swap Agreement (collectively, the “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 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 a Swap Agreement exceed the rate payable to the Board pursuant to the related Swap Agreements. Should any adverse basis differential occur while a Swap Agreement is in effect, the rate paid on the bonds that are subject to the Swap Agreement will be higher than the expected fixed rate, and therefore the expected interest cost savings may not be realized.

The Board may terminate a Swap Agreement at any time at market value. In addition, the Board or a swap provider may terminate a Swap Agreement under certain other conditions. If a Swap Agreement is terminated, the bonds subject to that 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, a Swap Agreement has a negative market value, the Board would be liable to the applicable swap provider for a termination payment equal to the swap’s market value. Such termination payment may be substantial.

Employee Pension Obligations

Funding of Pension Obligations. Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers’ Pension and Retirement Fund of Chicago, a separate legal entity (the “Pension Fund”). See EXHIBIT A- Financial Statements of the Board of Education of the City of Chicago. The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers’ Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (or “Funded Ratio”) to equal 90% by fiscal year 2045. As of June 30, 2004, the end of the last fiscal year of the Pension Fund for which audited financial information is available, the Funded Ratio for the Pension Fund was 85.8%.

The 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998: (i) eliminated the Board’s obligation to make any local employer pension contribution unless the Funded Ratio of the Pension Fund would otherwise fall below 90%; and (ii) made additional changes to the Board’s obligation to fund pension benefits. Based on the current Funded Ratio for the Pension Fund, the Board is required to contribute \$26.3 million to the Pension Fund in fiscal year 2006.

Debt Management Policy

Due to changes in the financial markets, the Board adopted a new Debt Management Policy (the “Debt Policy”) on April 27, 2005. 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 Management Policy is available at the Board’s website at <http://policy.cps.k12.il.us/documents/404.1.pdf>. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds.

Investment Policy

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

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

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are eight major units of local government located in whole or in part within the boundaries of the school district governed by the Board, each of which (i) is separately incorporated under the laws of the State, (ii) has an independent tax levy, (iii) derives its power and authority under the laws of the State, (iv) maintains its own financial records and accounts and (v) is authorized to issue debt obligations. These units are: the City; the Board; the Chicago

School Finance Authority; the Chicago Park District; Community College District Number 508; Cook County; the Forest Preserve District of Cook County; and the Metropolitan Water Reclamation District of Greater Chicago. Each of the foregoing governmental units levies taxes upon property located in the City, and, in some cases, in other parts of Cook County as well. For additional information about the Board, see “BOARD OF EDUCATION OF THE CITY OF CHICAGO.” Information about these other units of local government is set forth below.

Major Units of Government

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

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

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

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

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

The Metropolitan Water Reclamation District of Greater Chicago (the “Water Reclamation District”), formerly known as the Metropolitan Sanitary District of Greater Chicago, includes virtually all of the City and most of the County. The Water Reclamation District constructs, maintains and operates sewage treatment plants and certain sanitary sewers. In addition, the Water Reclamation District constructs and maintains drainage outlets. The

Water Reclamation District is governed by a nine-member board elected at-large by the voters of the Water Reclamation District.

Interrelationships of These Bodies

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

Other Public Bodies

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

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

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

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

The Regional Transportation Authority (the “RTA”) is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county area of northeastern Illinois, including Cook County. These include the CTA, METRA, the suburban rail division, and PACE, the suburban bus division. The RTA is governed by a 13-member board, consisting of City and suburban members appointed by elected officials in the

six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail sales in the six-county area, and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

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

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

Chicago School Finance Authority

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

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

Financial Oversight and Control Powers. Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise certain financial oversight and control powers with respect to the Board. Effective with the passage of the 1995 Amendatory Act, the Authority’s financial oversight and control powers were suspended until July 1, 1999. The suspension of these oversight and control powers has been extended until December 31, 2010.

Debt Obligations. Since 1980, the Authority has issued \$1,256,215,000 of its general obligation bonds to provide the Board with moneys for operating purposes, school rehabilitation and school construction purposes, working cash purposes and to refinance short-term debt obligations and to refund outstanding bonds of the Authority. See EXHIBIT A – Financial

Statements of the Board of Education of the City of Chicago for a more complete description of the uses of the proceeds of the various series of bonds issued by the Authority. As of the date of this Official Statement, \$268,075,000 of the Authority's bonds are outstanding, net of bonds defeased. The Authority's bonds are general obligations of the Authority, payable from a separate real estate tax levied on all real property in the School District without limit as to rate or amount. The Authority's bonds are not a direct or contingent obligation of the Board. The Authority's levy is a separate levy in addition to all taxes which the Board or the City are authorized to levy. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO.

THE BONDS

General

The Bonds will be issued as fully registered bonds. The Board has authorized the issuance of the Bonds in the following denominations: \$100,000 and any integral multiple of \$5,000 thereof and one Bond in an amount of \$2,800. The Bonds are being issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Code. As such, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Code, who own the Bonds will be entitled to a credit against taxable income as described herein. See "Federal Tax Credit." Owners of the Bonds will receive no interest payments thereon. Principal of the Bonds will be payable at maturity by Amalgamated Bank of Chicago, Chicago, Illinois, as bond registrar and paying agent (the "Registrar") for the Bonds. There will be no interest payments on the Bonds.

Maturity

The Bonds mature on June 6, 2021.

No Redemption

The Bonds are not subject to optional or mandatory redemption prior to maturity.

Registration, Transfer and Exchange

The books for the registration and transfer of the Bonds shall be kept at the principal corporate trust office of the Registrar.

Upon surrender for transfer of any Bond at the principal corporate trust office of the Registrar and duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Registrar duly executed by the registered owner thereof or its attorney duly authorized in writing, the Board shall execute and the Registrar shall authenticate, date and deliver in the name of the transferee or transferees a new fully registered Bond or the Bonds of the same series and maturity of authorized denomination or denominations, for a like aggregate principal amount. Any fully registered Bond or the Bonds may be exchanged at said

office of the Registrar for a like aggregate principal amount of Bonds of the same series and maturity of other authorized denominations. The execution by the Board of any fully registered Bond shall constitute full and due authorization of such Bond, and the Registrar shall thereby be authorized to authenticate, date and deliver such Bond.

The Registrar shall not be required to transfer or exchange any Bonds during the period of fifteen (15) days preceding the maturity date. All purchasers of any of the Bonds must deliver the required Investment Letter, a form of which is attached to this Private Placement Memorandum as EXHIBIT B.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner therefor for all purposes, and payment of any Bond shall be made only to or upon the order of the registered owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

No service charge shall be made for any transfer or exchange of the Bonds, but the Board or the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of the Bonds.

SECURITY FOR THE BONDS

General

The Bonds are secured by a pledge of (i) that amount of the General State Aid (as described below) payments to be made to the Board in any year pursuant to Article 18 of the School Code, not in excess of \$175,000,000 in any year, as shall provide for payment of the Bonds and all Outstanding Bonds and the provision of not less than an additional .10 times debt service on the Bonds and all Outstanding Bonds in such year (the "Pledged Revenues"); and (ii) the "Pledged Taxes," being the *ad valorem* taxes levied or to be levied against all of the taxable property in the School District, without limitation as to rate or amount, pursuant to Section 7 of the Bond Resolution, for the purpose of providing funds in addition to the Pledged Revenues to pay the principal of and interest on the Outstanding Bonds and the principal on the Bonds. The Board has determined that the Pledged Revenues will provide in each year an amount not less than 1.10 times debt service on the Bonds and the Outstanding Bonds, which determination is supported by the most recent audit of the Board, prepared by Deloitte & Touche LLP, which audit is for the fiscal year ended June 30, 2005 (the "2005 Audit"), being a fiscal year ending not earlier than eighteen (18) months previous to the time of issuance of the Bonds herein authorized and issued prior to January 1, 2007, which 2005 Audit has been presented to the Board and is on file with the Secretary of the Board.

As described herein, the Pledged Taxes will be collected only as and to the extent that the Pledged Revenues are not available in sufficient amounts to pay the debt service on the Bonds. For a summary of the assessment, levy and collection procedures applicable to the Pledged Taxes, see "REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES" below.

Pursuant to the 2004 Authorization, the Board has previously issued the Outstanding Bonds, and the Bonds are payable on a parity basis with the Outstanding Bonds and any Additional Bonds (as defined below) issued in the future.

General State Aid

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

GSA consists of a regular foundation formula claim, as explained below, and a low-income student grant. The calculation of the regular foundation claim depends primarily upon a school district’s best three months’ average daily attendance and local resources, such as equalized assessed valuation of property and corporate personal property replacement tax revenues within the school district. The low-income student grant provides additional resources for school districts that have a high concentration of low-income pupils. The low-income eligible pupil count came from the most recently available federal census through fiscal year 2003. In May 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, a new poverty count prepared by the Illinois Department of Human Services is used, starting in fiscal year 2004. The fiscal year 2004 count was an average of the 2002 and 2003 count of children who are eligible for assistance under Medicaid, Kidcare, Food Stamps, or Temporary Assistance for Needy Families (“TANF”). The poverty count for fiscal year 2004 and each year thereafter will be the average of the children eligible for Medicaid, Kidcare, Food Stamps and TANF for the three previous years.

The GSA formula used through fiscal year 1998 provided for different methods of allocation, depending primarily upon the equalized assessed valuation of property within a school district’s boundaries. The amount of GSA distributed to school districts was determined by the annual State appropriation.

The GSA formula was significantly amended in 1997 (the “1997 Amendments”). As a result, the minimum or “foundation level” of GSA per pupil was \$4,560 in fiscal year 2002, remained at \$4,560 in fiscal year 2003, \$4,810 in fiscal year 2004, \$4,964 in fiscal year 2005, and \$5,164 for 2006. In subsequent years, this “foundation level” will be set by the General Assembly, with advice from a funding advisory board.

Legislation adopted in 1999 by the General Assembly increased GSA funding for school districts that would otherwise experience a decrease in this funding because of increases in equalized assessed valuation of real property. In addition, the General Assembly increased the per pupil amount of the low-income student grant for low-income students, which is based on the low-income student count prepared by the Bureau of Census. As a result, the per pupil amount of the low-income student grant that applies to the Board was \$1,333 for fiscal year 2002, \$1,362 for fiscal year 2003, \$1,230 for fiscal year 2004, \$1,264 for fiscal year 2005, and \$1,327 for

fiscal year 2006. The lower per-pupil amount in fiscal year 2004 reflects the new poverty grant formula adopted in May 2003.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 1996 through 2005, 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 1997 – 2006
(Dollars in Millions)

Fiscal Year	Total GSA Claim⁽¹⁾	Supplemental General State Allocation	Unrestricted General Fund Deposit⁽²⁾
1997	503.3	261.2	242.1
1998	567.7	261.2	306.5
1999	706.2	261.3	444.9
2000	711.1	261.0	450.1
2001	730.4	261.0	469.4
2002	801.8	261.0	540.8
2003	786.9	261.0	525.9
2004	853.5	261.0	592.5
2005	926.7	261.0	665.7
2006	978.7	261.0	717.7

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

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

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

Illinois law further specifies that whenever new property is added to a school district’s tax base, adjustments are to be made to that school district’s GSA. As of today, as a general matter under the law, the Board will experience a \$3 decrease in GSA for every \$100 of adjusted equalized assessed valuation (the “AEAV”) resulting from the addition of new property to its tax base (the “New AEA”). However, given the Board’s current operating tax rate, the Board could offset this decrease and receive approximately \$3.05 in additional real estate taxes for

every \$100 of New AEAV, provided that the Board elects to apply its full, current operating tax rate to the New AEAV in the year in which it becomes available.

In particular, a number of tax increment financing areas (the “TIFs”) established by the City of Chicago in prior years are expected to begin to terminate, commencing in 2007. As these TIFs terminate, the New AEAV resulting from their termination will become part of the School District’s tax base with respect to which the Board will be entitled to levy its then current operating tax rate. As described above, the addition of the New AEAV from an expiring TIF to the School District’s tax base will cause a reduction in GSA, but this reduction can be offset by increased real estate tax revenues.

The Board does not anticipate that any future reductions in GSA resulting from new AEAV will impact the Board’s ability to collect the Pledged Revenues in amounts sufficient to meet its debt service obligations and debt service coverage covenants with respect to the Bonds.

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds if Pledged Revenues are insufficient. Based on projected receipts of Pledged Revenues, the Board anticipates that all Pledged Taxes will be abated prior to such taxes being extended. To the extent that the Pledged 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 Bonds.

Payment of Debt Service: Abatement of Pledged Taxes

The Registrar shall establish a separate fund designated as the Unlimited Tax General Obligation Bonds (Dedicated Revenues – Qualified Zone Academy Projects), Series 2006A Debt Service Fund (the “Debt Service Fund”). The Debt Service Fund shall constitute a separate and segregated fund from all other funds and accounts of the Board, and is irrevocably pledged to the owners of the Bonds solely for the purpose of paying the principal of the Bonds when due.

The Registrar shall deposit to the credit of the Debt Service Fund any amounts paid by the Board to the Registrar from time to time with instructions for deposit into the Debt Service Fund. On or before February 15, 2020 (or such earlier date as may be necessary to permit the Board to lawfully abate the Pledged Taxes), the Board shall deposit with the Registrar for credit to the Debt Service Fund such amounts derived from the Pledged Revenues as shall be necessary to ensure that \$6,852,800 is on deposit in the Debt Service Fund for payment of the principal amount of the Bonds when due at maturity. Once such amount is on deposit in the Debt Service Fund, the Registrar shall promptly transmit a sufficiency notice to the Board and the Board shall take such actions as are necessary to abate in full the Pledged Taxes levied to otherwise provide funds for payment of the Bonds.

In the event that as of February 15, 2020, there has not been deposited to the credit of the Debt Service Fund the amount of \$6,852,800 in total, the Board shall take such action as is necessary to cause the extension of the Pledged Taxes in calendar year 2020 in an amount sufficient, when added to amounts then on deposit in the Debt Service Fund, to equal \$6,852,800 in total. The Registrar shall use amounts on deposit in the Debt Service Fund to pay the principal of the Bonds on the first business day after the maturity date of the Bonds. Any remaining amounts on deposit in the Debt Service Fund shall be then paid to the Board free and clear of the lien and pledge of the Bond Resolution.

Additional Obligations Payable From Pledged Revenues

The Board reserves the right, pursuant to the Board Resolution, to issue additional bonds or other evidences of indebtedness payable from all or any portion of the Pledged Revenues (the “Additional Bonds”) or any other source of payment which may be pledged under the Debt Reform Act. Any such Additional Bonds shall share ratably and equally in the Pledged Revenues; provided, however, that no Additional Bonds shall 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. Subject only to compliance with such provisions of the Debt Reform Act, there is no limit on the aggregate principal amount of Additional Bonds, which may be issued by the Board.

The Board also reserves the right to issue bonds or other evidences of indebtedness payable from the Pledged Revenues and/or from the Pledged Taxes, which are subordinate to the Bonds. Such subordinate obligations will be paid from such Pledged Revenues and/or Pledged Taxes available to the Board in excess of those required to be deposited with the Registrar for payment of the Bonds.

Bonds are Obligations of the Board

The Bonds are not obligations of 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 State or any other political subdivision of the State (other than the Board) is pledged to the payment of the Bonds.

FEDERAL TAX CREDIT

This section summarizes certain material Federal income tax consequences relating to an investment in the Bonds. The summary only addresses such consequences to initial purchasers of the Bonds and is based upon the current provisions of the Code, its legislative history, treasury regulations, administrative pronouncements and judicial decisions, all of which are subject to change, possibly with retroactive effect. This summary does not purport to be a complete discussion of all Federal income tax consequences relating to making an investment in the Bonds. *The discussion herein concerning certain tax consequences with respect to an investment in the Bonds is included for general information only. All persons are urged to consult their own tax advisors to determine the specific tax consequences of making an investment in the Bonds, including any state, local or non-U.S. tax consequences.*

In the opinion of Mayer, Brown, Rowe & Maw, LLP, under existing law, and subject to the discussion below, the Bonds will qualify as “qualified zone academy bonds” under Section 1397E of the Code, and an “eligible taxpayer” who owns a Bonds on the “credit allowance date” will qualify for the tax credit allowable with respect to such Bonds as a credit against the taxpayer’s Federal income tax liability, assuming compliance by the Board with the requirements described below. Such compliance generally will be established at the time of issuance of the Bonds, except that in the case of the 95% Requirement (as defined below), if the Board is unable to actually spend 95% of the proceeds of the Bonds for a “qualified purpose” (as described below), the Board may apply certain remedial actions to preserve the qualification of a Bond as a qualified zone academy bond.

General

Section 1397E of the Code allows for a Federal income tax credit to an “eligible taxpayer” who owns a “qualified zone academy bond” on the “credit allowance date.”

A “qualified zone academy bond” generally includes a bond issued as part of an issue if 95% of the proceeds are to be used for a “qualified purpose” with respect to a “qualified zone academy” established by a local education agency (the “95% Requirement”). A “qualified zone academy” includes any public school or academic program within the public school below the post-secondary level if (i) such public school or program is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex work force, (ii) students in such public school or program are subject to the same academic standards and assessments as other students, (iii) the comprehensive education plan of such public school or program is approved by the local education agency and (iv) either the public school is located in an empowerment zone or enterprise community or there is a reasonable expectation as of the date of issuance of the bonds that at least 35% of the students attending such school or participating in such program will be eligible for free or reduced cost lunches under the school lunch program established under the National School Lunch Act.

A “qualified purpose” with respect to any qualified zone academy means (i) rehabilitating or repairing the public school facility in which the academy is established, (ii) providing equipment for use at such academy, (iii) developing course materials for education to be provided at such academy and (iv) training teachers and other such personnel in such academy.

A qualified zone academy bond must be issued by a state or local government (meaning a state or political subdivision as defined for purposes of Section 103 of the Code) within the jurisdiction of which such academy is located. In addition, the local education agency must certify that it has written assurances that a “private business contribution requirement” will be met. The Treasury Department and the Internal Revenue Service intend that this certification will be respected and may be relied upon by owners of the Bonds if the certification is reasonably made. For this purpose, the private business contribution requirement is met if the local education agency that established the qualified zone academy has written commitments from private entities to make “qualified contributions” having a present value as of the date of issue of the Bonds of not less than 10% of the proceeds of the bond issue. For this purpose,

“private entity” means any person other than the United States, a state or local government (or any agency or instrumentality thereof or related party with respect thereto); and “qualified contributions” include (i) equipment for use in the qualified zone academy, (ii) technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the class room, (iii) services of employees as volunteer mentors, (iv) internships, field trips, or other educational opportunities outside the academy for students or (v) any other property or service specified by the local education agency. Cash received with respect to a qualified zone academy from a private entity constitutes a qualified contribution if it is used to purchase any property or service described above.

Qualified zone academy bonds must have a maximum term determined in accordance with Section 1397E of the Code and implementing regulations. The maximum term for the Bonds is 15 years* from the date of issuance.

Qualified zone academy bonds must also receive an allocation from the applicable state education agency equal to their face amount from the State’s share of the national zone academy bond limitation for the calendar year. The Board has received the required allocation for the Bonds from the Illinois State Board of Education (“ISBE”).

Eligible Taxpayer

An “eligible taxpayer” includes only a bank within the meaning of Section 581 of the Code, an insurance company to which subchapter L of the Code applies and a corporation actively engaged in the business of lending money.

Amount of Credit

The amount of the tax credit with respect to a qualified zone academy bond is the amount equal to the product of the qualified zone academy bond credit rate (determined as described below) times the outstanding principal amount of the bond on the relevant credit allowance date. A credit allowance date is the last day of the one year period beginning on the date of issuance on the bonds and the last day of each successive one year period thereafter. The qualified zone academy bond credit rate is determined by the Internal Revenue Service and published daily at the Bureau of Public Debt Internet Site. The qualified zone academy bond credit rate applicable to an issue of qualified zone academy bonds is determined on the first day on which there is a binding, written contract for the sale of such bonds. The qualified zone academy bond credit rate is determined based on an estimate of the yield on outstanding “AA” rated corporate bonds of a similar maturity for the business day immediately prior to the date of determination.

Limitation on Credit

The tax credit allowed may not exceed the sum of the taxpayer’s regular tax liability and alternative minimum tax liability under Section 55 of the Code less, in general, the taxpayer’s other tax credits (except refundable tax credits set forth in subpart C of part IV of subchapter A of the Code).

Deduction of Unused Credit Amount

If a taxpayer cannot use all of the credit otherwise allowable for the taxable year, he may deduct the unused portion of the credit for the taxable year which includes the credit allowance date.

Passive Activity Rules

Section 469 of the Code generally provides that a passive activity credit may only be a credit against the Federal income tax on passive activity income. The tax credit with respect to a qualified zone academy is not considered a passive activity credit under Code Section 469(d) and, therefore, such credit is not subject to the above limitations with respect to passive activity credits.

Credit Amount Included in Income as Deemed Interest

Section 1397E (g) of the Code requires the owner of a Bond to include the amount of the credit (determined without reference to the limitation described above under “Limitation on Credit”) in gross income. The regulations thereunder provide that such amount constitutes interest income, which an accrual method taxpayer must accrue as income over the one year period that ends on the credit allowance date.

If such an accrual method taxpayer sold a Bond before any given credit allowance date, the taxpayer would have to accrue such interest income up to the date of sale but would not qualify for any of the tax credit for such credit allowance date. It would appear that because the subsequent purchaser would obtain the full credit for that credit allowance date, the purchase price would reflect the accrued interest amount. It would also appear that the receipt of such amount by the taxpayer would constitute a return of capital (tax basis) and not be subject to additional (i.e. double) taxation to the taxpayer.

Original Issue Discount

A Bond will be treated as issued with original issue discount (“OID”) to the extent of the excess of its “stated redemption price at maturity” over its “issue price.” Generally, the issue price of a Bond will be the first price at which a substantial amount of the Bonds included in the issue of which the Bond is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Bond is the total of all payments provided by the Bond that are not payments of “qualified stated interest.” A qualified stated interest payment is generally any one of a series of stated interest payments on a debt obligation that are unconditionally payable at least annually at a single fixed rate applied to the outstanding principal amount of such debt obligation. The deemed interest on the Bonds should be considered qualified interest for purposes of the OID rules.

The owner of a Bond must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to such income, and generally will have to include in income increasingly greater amounts of OID over the life of the Bond. The amount of

OID includible in income by an owner of a Bond is the sum of the daily portions of OID with respect to the Bond for each day during the taxable year or portion of the taxable year on which the owner holds such Bond (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period.

Accrual periods with respect to a Bond may be of any length selected by the owner and may vary in length over the term of the Bond as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Bond occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of each of the series of the Bond’s adjusted issue price at the beginning of the accrual period and such Bond’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Bond allocable to the accrual period. The “adjusted issue price” of a Bond at the beginning of any accrual period is the issue price of the Bond increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Bond that were not qualified stated interest payments.

For purposes of determining the amount of OID allocable to an accrual period, if an interval between payments of qualified stated interest on the Bond contains more than one accrual period, the amount of qualified stated interest payable at the end of the interval (including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval) is allocated pro rata on the basis of relative lengths of each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period in the interval must be increased by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable at the maturity of the Bond (other than any payment of qualified stated interest) and (y) the Bond’s adjusted issue price as of the beginning of the final accrual period.

Bond Premium

If a Bond is issued for an amount in excess of its stated principal amount, the owner may elect to treat such excess as “amortizable bond premium.” If the owner makes such an election, the amount required to be included in the owner’s taxable income in each year with respect to interest, including deemed interest attributable to the amount of the credit (see “Credit Amount Included in Income as Deemed Interest” above) on such Bond, will be reduced by the amount of the amortizable bond premium allocable (based on the yield to maturity of such Bond) to such year.

Any election to amortize bond premium generally shall apply to all debt obligations (other than obligations the interest on which is excludable from gross income) held by such owner at the beginning of the first taxable year to which the election applies or thereafter acquired by the owner, and is irrevocable without the consent of the Internal Revenue Service.

Tax Basis

An owner's initial tax basis in a Bond generally will be equal to the purchase price paid by such owner for such Bond. An owner's tax basis in a Bond will be increased by the amount of OID, if any, that is included in the owner's income, and decreased by the amount of premium, if any, amortized as a reduction to interest income, pursuant to the foregoing rules.

Credit's Effect on Estimated Income Tax Payments

The credit under Code Section 1397E may be taken into account by a taxpayer in computing the amount of quarterly estimated tax payments required to be paid by such taxpayer. Because the credit is only allowed for each taxable year in which a credit allowance date occurs, taxpayers will not be able to take any credit into account in computing their estimated tax for the taxable year in which they purchase the Bonds.

Sale, Redemption or Retirement of the Bonds

Upon the sale of a Bond for cash, an owner will recognize gain or loss equal to the difference between the amount of cash received (other than cash attributable to accrued interest) and such owner's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss if the Bond is a capital asset to such owner. Cash received attributable to accrued interest will constitute ordinary interest income to a cash method owner, and a return of capital with respect to interest accrued as income by an accrual method owner. Upon the redemption or retirement by the Board of a Bond for cash, an owner will recognize gain or loss equal to the difference between the amount of cash received (other than cash attributable to accrued interest) and such owner's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss if the Bond is a capital asset to such owner. Cash received attributable to accrued interest not recognized as OID income will constitute ordinary interest income to a cash method owner, and a return of capital with respect to interest accrued as income by an accrual method owner.

U.S. Federal Information Reporting and Backup Withholding

Under current United States Federal income tax law, a backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of, a sale, exchange or redemption of, the Bonds. In addition, certain persons making such payments are required to submit information returns (i.e., IRS Forms 1099) to the Internal Revenue Service with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

Illinois Income Tax Consequences

The Illinois Income Tax Act, as amended, does not provide for any credit against Illinois state income tax with respect to the ownership of a qualified zone academy bond. The amount included as deemed interest with respect to the Bonds is not exempt from Illinois state income tax.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

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 2003 and will be reassessed in 2006. The suburbs in the northern and northwestern portions of the County were reassessed in tax year 2004. The suburbs in the western and southern portions of the County will be reassessed in tax year 2005.

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

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by filing a complaint with the Cook County Board of Review (the “Board of Review”). 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 property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the “PTAB”), a statewide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Depending on the amount of the proposed change in Assessed Valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

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

The Board of Review, through the Cook County State's Attorney Office, appealed the March 2000 decisions and August 2001 decisions of the PTAB to the Illinois Appellate Court (the "Appellate Court"). On August 20, 2002, the Appellate Court issued an opinion affirming in part and reversing in part the March 2000 decisions concerning the PTAB's use of the Sales-Ratio Studies. Shortly thereafter, the PTAB filed a petition for leave to appeal with the Illinois Supreme Court asking the Court to review the Appellate Court's decision. On October 7, 2003, the Illinois Supreme Court denied the PTAB's petition for leave to appeal. The PTAB then filed a motion asking the Court to reconsider the denial of the petition for leave to appeal. On or about November 7, 2003, the Court denied the motion requesting reconsideration of the denial of the petition for leave to appeal.

In November of 2002, the Appellate Court heard oral argument on the PTAB's August 2001 decisions concerning the two and one-half times level of assessment. In December of 2003, the Appellate Court issued its decision and remanded the cases to the PTAB with directions to apply the level of assessment contained in the Classification Ordinance, concluding that the taxpayer did not timely raise proper challenges so as to justify the relief granted. In reaching this conclusion, the Court did not consider the PTAB's reading of the constitutional ratio limitation or the PTAB's use of Sales-Ratio Studies as authority to deviate from the Classification Ordinance. Both the PTAB and the property owner have appealed the Appellate Court's December 2003 decision to the Illinois Supreme Court. On March 26, 2004, the Court denied the petitions for leave to appeal. The property owner in this matter then filed a petition for writ of certiorari with the United States Supreme Court, which was denied on October 4, 2004, in a case known by Docket No. 03-1716.

In both of its decisions the Appellate Court did not necessarily foreclose a taxpayer from proving the validity of the Sales-Ratio Studies and establishing a level of assessment for County property types other than the levels of assessment indicated by the Classification Ordinance. It did, however, reject the argument that the PTAB may take "judicial notice" of the Sales-Ratio Studies.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the

Circuit Court of Cook County. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Value, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

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

Equalization. After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year (including any revisions made by the Board of Review), the Illinois Department of Revenue reviews the assessments and determines an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county. The purpose of equalization is to bring the aggregate assessed value of all real estate in each county, 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, 2004, see "--Property Tax Information--Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1994-2004."

Exemptions. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of \$5,500. Additional exemptions exist for (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by \$3,000, and (ii) disabled veterans, with the Assessor authorized annually to exempt up to \$58,000 of the Assessed Valuation of certain property owned and used exclusively by such veterans or their spouses for residential purposes. A homestead improvement exemption allows homeowners to exempt up to \$75,000 of the increase in the fair cash value of their residence due to certain home improvements to an existing structure without increasing the Assessed Valuation of their property for at least four years. For rehabilitation of certain historic property, the Equalized Assessed Valuation is limited for eight years to the value when the rehabilitation work began. The Senior Citizens Tax Freeze Homestead Exemption freezes property tax assessments for homeowners who are 65 and older and have annual incomes of \$40,000 or less. Certain property is also exempt from taxation on the basis of ownership and/or use.

Additionally, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, longtime, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. On June 5, 2001, the County enacted the Longtime Homeowner Exemption Ordinance, which provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption of certain homeowners who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), and whose annual household income for the year of assessment does not exceed 115% of the Chicago Primary Metropolitan Statistical Area median income as defined by United States Department of Housing and Urban Development. Recent amendments to the Property Tax Code have capped the Longtime Homeowner Exemption at \$20,000 in equalized assessed value per levy year.

In addition, recent amendments to the Property Tax Code created an optional “Alternative General Homestead Exemption” which could be adopted by the various counties at the discretion of each respective county. On July 13, 2004 the Cook County Board adopted an enabling ordinance implementing the Alternative General Homestead Exemption.

An Alternative General Homestead Exemption limits future increases in the Equalized Assessed Valuation of residential property to an average annual increase of not more than 7% per year. The amount of this exemption for each applicable year is the Equalized Assessed Valuation of the homestead property for the current tax year minus the “adjusted homestead value,” which is defined as the lesser of (i) the property’s base homestead value increased by 7% for each tax year after 2002 through and including the current tax year of (ii) the property’s Equalized Assessed Valuation for the current tax year minus \$5,000. However, the total exemptions claimed by a homeowner under the Alternative General Homestead Exemption cannot exceed \$20,000 for any taxable year. Additionally, the total exemption is limited to \$5,000 for homeowners who are also entitled to the Senior Citizens Tax Freeze Homestead Exemption.

The Alternative General Homestead Exemption is temporary and is only available for three years following the year a homeowner’s property is assessed. If the general assessment year for the property is 2003, the Alternative General Homestead Exemption applies for the assessment years 2003, 2004 and 2005. If the general assessment year for the property is 2004, the Alternative General Homestead Exemption applies for the assessment years 2004, 2005 and 2006. Lastly, if the general assessment year for the property is 2005, the Alternative General Homestead Exemption applies for the assessment years 2005, 2006 and 2007. For the first taxable year only after the Alternative General Homestead Exemption no longer applies, an additional homestead exemption of \$5,000 is available for owners (i) who have not been granted a Senior Citizens Tax Freeze Homestead Exemption for the taxable year, (ii) whose qualified property has an Assessed Valuation that has increased by more than 20% over the previous Assessed Valuation of the property, and (iii) who have a household income of \$30,000 or less. After the Alternative General Homestead Exemption is phased out, homeowners are entitled to the General Homestead Exemption and other exemptions described above.

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

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

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

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

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

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year’s tax bill. The second installment is for the balance of the current year’s tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the last 10 years, the second installment “penalty date” (that is, the date after which interest is due on unpaid amounts) has not been later than November 15 and the date for tax year 2004 was November 1, 2005. It is possible that delays in the assessment process or changes to the

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

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

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

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited to the State and are eligible to be purchased 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.

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 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.

(A) Property Tax Extension Limitation Law; Issuance of Alternate Bonds

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

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

Assessed Valuation attributable to new construction and referendum approval of tax or limitation rate increases.

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

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

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

(B) 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 September 22, 2004, a hearing pursuant to the Bond Issue Notification Act was held in connection with the Bonds.

(C) Property Tax Information

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

ASSESSED, EQUALIZED ASSESSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY 1995-2004
(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				
2004	\$12,998,216	\$1,883,047	\$10,401,428	\$465,464	\$25,738,155	2.5757	\$55,283,639		
2003	12,677,199	2,233,572	10,303,731	487,681	25,702,183	2.4598	53,168,632	\$263,482,258	20.18 %
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
1998	6,646,198	2,047,577	7,848,335	267,006	16,809,116	2.1799	33,940,146	112,606,894	30.14
1997	6,554,717	2,077,044	7,809,486	262,032	16,703,279	2.1489	33,349,557	106,282,207	31.38
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.62
1995	5,769,559	1,979,007	7,374,840	241,356	15,364,762	2.1243	30,381,480	97,291,356	31.23

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

(2) Source: Illinois Department of Revenue.

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

(4) Source: The Civic Federation. Excludes railroad property. Total Estimated Fair Cash Value for the Year 2004 is not yet available as of May 1, 2006.

(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 and 2003.

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

Levy Year ⁽²⁾	Extension	First Year Collections		Cumulative Collections ⁽¹⁾	
		Amount	Percent	Amount	Percent
2005	\$1,813,697	\$ 691,708	38.1%	\$ 691,708	38.1%
2004	1,734,478	1,565,982	90.3	1,684,055	97.1
2003	1,670,337	1,500,238	89.8	1,655,776	99.2
2002	1,614,473	1,548,369	95.9	1,585,377	98.2
2001	1,571,962	1,519,630	96.7	1,554,966	98.9
2000	1,503,488	1,446,847	96.2	1,476,533	98.2
1999	1,451,206	1,408,124	97.0	1,427,803	98.4
1998	1,416,346	1,317,872	93.0	1,381,487	97.5
1997	1,362,211	1,304,701	95.8	1,325,859	97.3
1996	1,331,437	1,293,278	97.1	1,282,739	96.3

(1) Year of extension is the year after the year of the levy.

(2) The 2005 tax extensions year reflects collections through April 21, 2006.

Source: Board of Education of the City of Chicago

Real Property Tax Rates⁽¹⁾
(per \$100 equalized assessed valuation)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Tax Rates by Board Fund:⁽²⁾										
Educational	\$3.196	\$3.202	\$2.998	\$3.059	\$3.000	\$2.756	\$2.712	\$2.670	\$2.258	\$2.301
Special Education.....	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare.....	0.034	0.023	0.022	0.044	0.048	0.047	0.031	0.017	0.000	0.000
Agricultural Science	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Building	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Playground and Recreational	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Textbook.....	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation										
Tort Immunity.....	0.254	0.222	0.246	0.192	0.206	0.141	0.191	0.150	0.219	0.131
Teachers' Pension.....	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance.....	0.594	0.709	0.719	0.722	0.701	0.640	0.685	0.609	0.565	0.576
Bond Redemption & Interest.....	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.173	0.171	0.099	0.155	0.149	0.130	0.125	0.116	0.100	0.096
Board Subtotal.....	<u>\$4.251</u>	<u>\$4.327</u>	<u>\$4.084</u>	<u>\$4.172</u>	<u>\$4.104</u>	<u>\$3.714</u>	<u>\$3.744</u>	<u>\$3.562</u>	<u>\$3.142</u>	<u>\$3.104</u>
Other Major Government Units:										
City of Chicago.....	2.131	2.182	2.024	1.998	1.860	1.660	1.637	1.591	1.380	1.302
Community College District.....	0.376	0.377	0.356	0.354	0.347	0.311	0.307	0.280	0.246	0.242
School Finance Authority.....	0.296	0.291	0.270	0.268	0.255	0.223	0.223	0.177	0.151	0.177
Chicago Park District	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.444
Water Reclamation District	0.495	0.492	0.451	0.444	0.419	0.415	0.401	0.371	0.361	0.347
Cook County.....	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593
Cook County Forest Preserve.....	0.072	0.074	0.074	0.072	0.070	0.069	0.067	0.061	0.059	0.060
Other Unit Subtotal	<u>\$5.094</u>	<u>\$5.126</u>	<u>\$4.759</u>	<u>\$4.700</u>	<u>\$4.432</u>	<u>\$4.074</u>	<u>\$3.948</u>	<u>\$3.715</u>	<u>\$3.291</u>	<u>\$3.165</u>
TOTAL.....	\$9.345	\$9.453	\$8.843	\$8.872	\$8.536	\$7.788	\$7.692	\$7.277	\$6.433	\$6.269

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

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

CONTINUING DISCLOSURE EXEMPTION

The private placement of the Bonds is exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission and is not subject to the continuing disclosure requirements thereof.

FINANCIAL STATEMENTS

The financial statements of the Board as of and for the year indicated in such financial statements are included herein. See EXHIBIT A - FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF THE CITY OF CHICAGO.

RATING

Fitch Ratings has assigned a rating of “A+” to the Bonds. Such rating reflects only the view of said organization and any desired explanation of the significance of the rating should be obtained from the rating agency furnishing the same, at the following address: Fitch Ratings, One State Street Plaza, New York, New York 10004, (212) 908-0500. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revisions or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

The Board has retained D.A. Davidson & Co., of Chicago, Illinois and A.C. Advisory, Inc., of Chicago, Illinois as Financial Advisors in connection with the issuance of the Bonds. In connection with the distribution of financial information, including the Private Placement Memorandum, the Financial Advisors have relied upon the officials of the Board, and other sources, who have access to relevant data to provide accurate information. The Financial Advisors have not been engaged, nor have they undertaken, to independently verify the accuracy of such information.

PRIVATE PLACEMENT

The Bonds are being offered by the Board only to sophisticated investors constituting (a) institutional “accredited investors” within the meaning of Rule 501(a)(1), (2), (3) or (7) promulgated under the United States Securities Act of 1933, as amended; and (b) “eligible taxpayers” within the meaning of Section 1397E of the Code. Section 1397E(d)(6) of the Code defines “eligible taxpayer” to mean: (i) a bank (within the meaning of Section 581 of the Code); (ii) an insurance company to which subchapter L of the Code applies; and (iii) a corporation actively engaged in the business of lending money. *Only “eligible taxpayers” are entitled to the tax credits afforded by ownership of the Bonds under Section 1397E of the Code.*

Each prospective purchaser of the Bonds is being furnished a copy of this Private Placement Memorandum. In addition, each prospective purchaser is hereby offered the opportunity, prior to purchasing any Bonds, to ask questions of, and receive answers from, the Board concerning the terms and conditions of the offering, and to obtain any additional relevant information to the extent the Board possesses the same or can acquire it without unreasonable effort or expense. Each purchaser, by purchasing the Bonds and delivering the required investor letter (a form of which is attached to this Private Placement Memorandum as EXHIBIT B), represents to the Board, among other things, that it has had an opportunity to ask questions of, and has received answers from, and that it has received all information and materials it regards as necessary to evaluate all merits and risks of its investment from the Board. Inquiries concerning additional information should be directed in writing to the Board at the following address:

Board of Education of the City of
Chicago
125 South Clark Street
Chicago, Illinois 60603
Attention: John Maiorca
Chief Financial Officer

Each purchaser of the Bonds must be able to bear the economic risk of such purchaser's investment in the Bonds. Each purchaser, by purchasing the Bonds and delivering the required investor letter, represents to the Board that it has sufficient knowledge and experience in financial and business matters, including the purchase and ownership of securities, to be able to evaluate the merits and risks of its investment in the Bonds. Moreover, each purchaser, by purchasing the Bonds and delivering the required investment letter, agrees with the Board that (1) its purchase of the Bonds is for its own account, or as a fiduciary for others, for the purpose of investment and not with a view to distribution or resale, (2) it does not intend to resell the Bonds or grant participations therein, and (3) in the event it does resell the Bonds or grant participations therein, it will comply with all applicable state and Federal securities laws.

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Mayer, Brown, Rowe & Maw, LLP, Chicago, Illinois, Bond Counsel. The proposed form of Bond Counsel opinion with respect to the Bonds is included herein as EXHIBIT C. Certain legal matters will be passed upon for the Board by Patrick J. Rocks; and by Wildman Harrold Allen & Dixon, LLP, Chicago, Illinois, as Issuer's Counsel; and by Lawrence & Associates, Chicago, Illinois, as Disclosure Counsel.

MATERIAL 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 Private Placement Memorandum. 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 Limitation Law, as amended. See "REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES--Property Tax Extension Limitation Law; Issuance of Alternate Bonds."

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

Teacher Tenure Litigation

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

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

On September 17, 2001, the Board filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on December 20, 2001. Thereafter, on February 6, 2002, the Illinois Supreme Court granted the Board's petition seeking appeal of the Appellate Court's decision. On November 21, 2002, the Illinois Supreme Court, among other things, affirmed the Appellate Court's holding that tenured teachers can be laid off, and agreed that the Board could delegate its layoff authority. However, the Illinois Supreme Court also held that the Board was prohibited from delegating its layoff authority to school principals, and explicitly did not decide "whether the [layoff] authority may be delegated to officers or administrators other than the general superintendent and attorney." The case was remanded to the Circuit Court to determine "whether the layoff authority was delegated and, if so, to whom."

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

Jones, et al. v. Board of Education 00 CH 093 74 is an action brought by the CTU essentially repeating the claims asserted in Land. Based upon the decision in a previous matter and the pendency of Land, the Board filed a motion to stay this action, arguing that the legal and factual issues raised in this action will be resolved by the final decisions in the previously filed lawsuits. The Court granted the Board's motion on August 16, 2000, granting a stay of Jones in all respects. It is unlikely that this action would give rise to liability not contemplated in the discussion of the Land litigation. Based upon agreement of the parties, the Land case and the Jones case were consolidated.

Tort Claim

In Della Coleman, as Special Administrator of the Estate of Derrick Spencer v. Board of Education, the family of Derrick Spencer, an eighth grade student, filed suit against the Board and Quality Inn Hotels for damages arising from Derrick's drowning while on a field trip along with other eighth grade students from Goldblatt Elementary School. The drowning occurred in Ohio on May 24, 2002, after one of Derrick's classmates pushed him into the pool at the Quality Inn Hotel. The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at Quality Inn Hotel; failing to assess Derrick's swimming skills; failing to monitor the Goldblatt students in and around the pool; failing to follow Board policies regarding school trips; and failing to protect Derrick from the dangerous water conditions at the Quality Inn Hotel.

The Board has raised tort immunity as a defense to these claims, but the outcome of this defense cannot be predicted. To the extent that the case results in a jury trial, a finding of liability on the part of the Board cannot be predicted as either probable or remote at this juncture. If there is a finding of liability against the Board, the verdict could range as high as \$10,000,000 based on other claims of wrongful deaths involving teenagers. The Board will be entitled to a set-off of \$2,500,000, however, against any adverse jury verdict, because the family settled its claim against the hotel for that amount.

Dispute Over Pension Fund Claims for Reimbursement

A dispute exists between the Board and the Public School Teachers' Pension and Retirement Fund (the "Fund") regarding whether the Board has the right under the Illinois Pension Code, to require employees who want to take advantage of the Early Retirement Option ("ERO") to apply for it by the middle of May of any year that the ERO is offered to teachers. The Board is required to contribute a specified amount to the Fund for each employee selecting the ERO.

The Fund has notified the Board of its position that the Board does not have a right to impose a deadline date on eligible employees to apply for the ERO. The Fund has represented that it intends to reach out to those employees who would have been eligible for the ERO under its analysis and offer them the opportunity to retire. Under this scenario, 30% of all teachers who have reached the age of 55 years and have at least 20 years, but less than 34 years, of service credit would be able to take advantage of the ERO in the years it was authorized by the Board. The Fund has also represented that it will send the Board an invoice for the Board's contribution, and would also, if the Board refuses to pay, take legal action. No legal action has been taken by the Fund against the Board as of the date of this Private Placement Memorandum.

Should the Fund's interpretation be found correct in a court action, the Board will be required to pay the Fund the specified contribution for each employee who elects the ERO. While it is not possible to know with any certainty the number of employees who will elect the ERO under these circumstances, if the maximum number (30% of eligible employees) take advantage of it, the Board's estimated liability could be approximately \$38,000,000. The Board is unable to predict the outcome of this dispute at the present time.

AUTHORIZATION

The Board has authorized the distribution of this Private Placement Memorandum. This Private Placement Memorandum has been duly executed and delivered on behalf of the Board.

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

By: /s/ John Maiorca
Its: Chief Financial Officer

EXHIBIT A - FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF THE
CITY OF CHICAGO

FINANCIAL STATEMENTS

EXHIBIT B
FORM OF INVESTMENT LETTER

FORM OF INVESTMENT LETTER

[Letterhead of Investor]

_____, 2006

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

Re: \$6,852,800 Board of Education of the City of Chicago Unlimited Tax
General Obligation Bonds (Dedicated Revenues – Qualified Zone
Academy Projects), Series 2006A

Ladies and Gentlemen:

The undersigned (the “Investor”) acknowledges that the above-referenced bonds (the “Bonds”) were issued by the Board of Education of the City of Chicago (the “Board”). The Board issued the above referenced bonds as “qualified zone academy bonds” within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended, pursuant to resolution(s) adopted by the Board on September 22, 2004 (the “2004 Authorization”), and on April 26, 2006 (the “Bond Resolution”), for the Bonds (the “Board Resolution” or the “Resolution”). Terms not otherwise defined herein shall have the meanings ascribed to them in the Disclosure Documents (as described hereafter). The Investor hereby represents and warrants to you as follows:

1. The total aggregate principal amount of the Bonds is \$6,852,800. The Investor proposes to purchase \$6,852,800 of the aggregate principal amount.

2. The Investor understands that the Bonds are not currently required to be, have not been and are not intended to be registered under the Securities Act of 1933, as amended (the “1933 Act”), or the securities laws of any state, and will be sold to the Investor in reliance upon certain exemptions from registration and in reliance upon the representations and warranties of the Investor set forth herein. The Investor has received and carefully reviewed the Private Placement Memorandum, dated June __, 2006, (the “Disclosure Document”), understands the risks described therein, and understands and acknowledges that there may be other risks in such an investment which are not described therein. The Investor acknowledges that no written information, other than the Disclosure Document, has been provided to the Investor on behalf of the Board.

3. The Investor agrees that, if the Bonds are disposed of by it, current information meeting the disclosure requirements of any applicable state and Federal securities laws then in effect concerning the Bonds must be furnished to any prospective purchaser and further

acknowledges that any current exemption from registration of the Bonds does not affect or diminish such requirement.

4. The Investor has sufficient knowledge and experience in business and financial matters in general, and investments such as the Bonds in particular, and is capable of evaluating the

merits and risks involved in an investment in the Bonds on the basis of the information requested and reviewed by the Investor, and its review as described herein. The Investor is able to bear the economic risk of, and an entire loss of, an investment in the Bonds.

5. The Investor acknowledges that it is familiar with the conditions, financial and otherwise, of the Board. The Investor further acknowledges that it is familiar with (a) the nature and purpose of the Bonds, (b) the proposed application of the proceeds of the Bonds, (c) the nature of the security for the Bonds, (d) the denomination limitation of the Bonds, (e) the tax status of ownership interests in the Bonds, (f) the rights and remedies of the owners of the Bonds under the Resolution, and (g) the restrictions of the Bonds.

6. The Bonds are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Bonds, and the Investor intends to hold the Bonds for its own account and for an indefinite period of time, and does not intend at this time to dispose of all or any part of the Bonds. The Investor understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

7. The business of the Investor is _____. As such, the Investor constitutes an “eligible taxpayer” within the meaning of Section 1397E(d)(6) of the Internal Revenue Code of 1986, as amended. The Investor is also an institutional “accredited investor” as defined in Rule 501(a)(1), (2), (3) or (7) promulgated under the 1933 Act (“Rule 501”); it is aware that the sale of the Bonds to it is made in reliance on Rule 501. The Investor agrees that it will only offer, sell, pledge, transfer or exchange any of the Bonds it purchases (or any legally beneficial interest therein) (i) in accordance with an available exemption from the registration requirements of Section 5 of the 1933 Act, (ii) in accordance with any applicable state securities laws, and (iii) in accordance with the provisions of the Bonds and Resolutions.

8. The Investor has received a copy of the Disclosure Document and acknowledges that it has had access to such financial and other information, and has been afforded the opportunity to ask such questions of representatives of the Board, and receive answers thereto, as the Investor deems necessary in order to verify the information contained in the Disclosure Document. The Investor acknowledges that the private placement of the Bonds is exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission and is not subject to the continuing disclosure requirements thereof.

9. The Investor has authority to purchase the Bonds and to execute this Investor Letter and any other instruments and documents required to be executed by the Investor in connection with the purchase of the Bonds.

10. The Investor has been informed that the Bonds (i) have not been and will not be registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any jurisdiction, and (ii) will not be listed on any stock or other securities exchange.

11. Although the Investor does not intend at this time to dispose of all or any part of the Bonds, the Investor acknowledges that it has the right to sell and transfer the Bonds, subject to the delivery to the addressees hereof of a letter to the same effect as this Investor Letter, including this paragraph 11, with no revisions except as may be approved in writing by the addressees hereof. Failure to deliver such letter shall cause the purported transfer to be null and void.

Very truly yours,

Dated:

By: _____

Name: _____

Title: _____

EXHIBIT C

FORM OF BOND COUNSEL OPINION
BOARD OF EDUCATION OF THE CITY OF CHICAGO

June __, 2006

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

[Purchaser of Qualified Zone Academy Bond]

Re: \$6,852,800 Board of Education of the City of Chicago Unlimited Tax
General Obligation Bonds (Dedicated Revenues – Qualified Zone
Academy Projects), Series 2006A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Board of Education of the City of Chicago (the “Board”) of its fully registered \$6,852,800 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues – Qualified Zone Academy Projects), Series 2006A (the “Bonds”). As bond counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates (collectively, the “Proceedings”), pertaining to the issuance by the Board of the Bonds.

The Bonds are being issued pursuant to 105 Illinois Compiled Statutes 5/1 *et seq.*, as amended (the “School Code”), and 30 Illinois Compiled Statutes, 350/1 *et seq.*, as amended (the “Debt Reform Act”). The Bonds are being issued under and secured by the Resolution entitled “Resolution Providing For The Issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues - Qualified Zone Academy Projects), Series 2006A of the Board of Education of the City of Chicago” (the “Resolution”), adopted on April 26, 2006.

The Bonds will mature on June __, 2021*. The Bonds do not bear interest and no interest is payable on the Bonds. The Bonds are not subject to optional or mandatory redemption prior to maturity.

The Bonds are being issued as qualified zone academy bonds within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended (the “Code”) and the regulations promulgated thereunder (the “Code”). An eligible taxpayer (“Eligible Taxpayer”), as defined in Section 1397E of the Code, who owns Bonds on a Credit Allowance Date, as

* Subject to change.

defined below, is entitled to an annual federal income tax credit (“Tax Credit”) in an amount equal to ___% times the outstanding principal amount of the Bonds owned by the Eligible Taxpayer on the relevant Credit Allowance Date, as defined below. Under the Code, the Tax Credit is available to an Eligible Taxpayer who owns Bonds on the last day of each one year accrual period on the Bonds, that is, the last day of the one year period beginning on the date of issuance of the Bonds and the last day of each successive one year period thereafter (the “Credit Allowance Date”). The amount of the annual Tax Credit is deemed to be interest which accrues as taxable interest income to the owner(s) of the Bonds during each one year accrual period. Such deemed interest is not excludable from gross income under Section 103(a) of the Code.

Based upon the examination described above, we are of the opinion that:

1. The Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.
2. The Board has taken all necessary corporate action to adopt the Bond Resolution.
3. The Resolution has been duly adopted, authorized, executed and delivered by the Board. The Resolution constitutes the legal, valid and binding obligation of the Board, enforceable against the Board in accordance with its terms, except as enforceability may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors’ rights generally and by the availability of equitable remedies.
4. The Bonds have been duly and validly authorized and issued in accordance with applicable law, including, without limitation, the School Code and the Debt Reform Act, and the Resolution. The Bonds are valid and legally binding upon the Board, except as limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors’ rights and by the availability of equitable remedies.
5. The Bonds are a general obligation of the Board to which the Board has pledged its full faith and credit and will be payable from any moneys, revenues, income, assets or funds of the Board legally available for such purpose. The Bonds are secured by and payable, on a parity basis with the Outstanding Bonds (as defined and described in the Private Placement Memorandum, dated June ___, 2006, relating to the Bonds), from the “Pledged Revenues,” being a specified annual amount of the state school aid payments to be made to the Board pursuant to Article 18 of the School Code of Illinois, as amended (or such successor or replacement act as may be enacted in the future). The Bonds are also secured by and payable from the “Pledged Taxes,” being the *ad valorem* taxes levied against all of the taxable property in the school district governed by the Board (the “School District”), without limitation as to rate or amount, for the purpose of providing funds to pay the principal of the Bonds, and all taxable property in the School District is subject to the levy of such taxes.
6. 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 Amalgamated Bank of Chicago, Chicago, Illinois, as bond registrar and paying agent, in each case for application pursuant to the Resolution.

7. Under present law, the Bonds are “qualified zone academy bonds” within the meaning of Section 1397E of the Code. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Board complies with all requirements of the Code that must be satisfied at the time of and subsequent to the issuance of the Bonds in order that the Bonds are and continue to be “qualified zone academy bonds” within the meaning of Section 1397E of the Code. The Board has covenanted to comply with all such requirements. An Eligible Taxpayer who owns Bonds on each Credit Allowance Date is entitled to a Tax Credit in an amount equal to __% times the outstanding principal amount of Bonds owned by the Eligible Taxpayer on such Credit Allowance Date.

8. Neither the Tax Credit nor any “deemed interest” attributable thereto will be treated for purposes of Section 265 of the Code as interest or other income which is wholly exempt from the taxes imposed by Subtitle A of the Code. The Bonds are not “tax-exempt obligations” within the meaning of Section 265(b)(4)(B) of the Code.

In rendering this opinion, we have relied upon certifications of the Board with respect to certain material facts solely within the knowledge of the Board relating to the application of the proceeds of the Bonds and the receipt of private contributions received by the Board in respect of the qualified zone academy project being financed with the proceeds of the Bonds.

Respectfully submitted

MAYER, BROWN, ROWE & MAW, LLP